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GREEN ECONOMY TRANSITION APPROACH 2021-2025

(Referred to in this document as GET 2.1)

“Achieving net zero greenhouse gas emissions means we must change the whole economy… but the good news is that this can be the growth story of the 21st century.”

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PRESIDENT'S RECOMMENDATION

The promotion of environmentally sound investments, policy and technical cooperation, and sustainable development in the full range of its activities is intrinsic to the Bank's mandate from its founding agreement. Furthermore, the shift to an environmentally sustainable green and low carbon economy relies on the transformation of markets, behaviours, products and processes, technological deployment and new skills in line with the transition focus of the EBRD.

Reflecting evolving opportunities and challenges across the EBRD countries of operations, enhanced capacities and lessons learned by the Bank over the first implementation period of its Green Economy Transition (GET) Approach, the new GET approach for the period 2021 to 2025 aims to further scale-up existing activities, to optimise activity in specific functional areas and to develop new activities contributing in practical terms to a green economic recovery following the severe impact of the COVID-19 health emergency.

The GET approach will remain anchored on the transition and client-driven and private sector business model of the EBRD and in line with its operating principles of transition impact, sound banking and additionality. Reflecting deep market failures in this area, practical policy work in close cooperation with countries of operations will have an important role alongside the financing activity of the Bank.

Reflecting its strong commitment to support the transition to a green low carbon economy in its countries of operations, the Bank is setting a target green finance ratio of more than 50% by 2025. The achievement of this target will depend on the timing and extent to which countries of operations adopt a green recovery approach, the timely allocation of internal resources, and the availability of external funds building on the strong relationships established with bilateral donors, the EU and the global funds supporting the green activities of the EBRD.

I recommend that the Board of Directors approve the proposed Green Economy Transition approach for the period 2021 to 2025 which will become effective upon the approval of the Strategic and Capital Framework 2021-2025.

Jürgen Rigterink
First Vice President, Acting President

EXECUTIVE SUMMARY

EBRD at the forefront of climate and environmental action

EBRD proposes to scale up its contributions to addressing the urgent climate and environmental crisis. Building on a solid track record of green financing and policy delivery, the new Green Economy Transition (GET) approach for the period 2021 to 2025 is ambitious, comprehensive and pragmatically anchored in the climate change and environmental challenges of its countries of operations. The EBRD will support the acceleration of the transition to a green, low-carbon and resilient economy by:

- aligning its activities with the principles of international climate agreements, including principally the Paris Agreement;
- enhancing policy engagement for the development of long-term low carbon strategies and greening of financial systems; and
- scaling up investment by innovating across a set of specific environmental and climate mitigation and adaptation thematic areas such as green digital solutions, just transition, circular economy, natural capital and green value chain financing.

Delivered through the Bank's private sector oriented business model, this new approach will include climate action to reduce energy and carbon intensity and to enhance resilience to climate risks, as well as environmental action to abate air pollution, address water issues and protect natural capital.

Reflecting a determined ambition to address these fundamental challenges, the EBRD is setting a new target to reach a green finance ratio of more than 50 per cent by 2025 with an intelligent approach to the green economy combining the commitment to the majority of its financing being green with the provision of policy expertise.

ENVIRONMENTAL CONTEXT

The EBRD countries of operations (COOs) are diverse in their geography and habitats facing a **range of environmental challenges** from air pollution to climate change, and from soil degradation to water pollution.

The flagship IPCC Special Report on Global Warming of 1.5°C highlighted the **scale and urgency of the climate challenge** based on extensive scientific work confirming that CO_2 emissions need to fall by around 45% by 2030 (from 2010 level) and **reach net zero by mid-century** to limit warming within 1.5°C. The degree of **vulnerability** to climate factors varies across COOs. In countries where economic activity is already exposed to high physical climate risks, such as droughts, flooding, wildfires and other extreme weather events, impacts from a changing climate are likely to be exacerbated by low levels of readiness and ability to respond. The rise in temperatures will cause further stress on **water** systems.

The rapid rate of **biodiversity** loss is reducing nature's capacity to be resilient against the pressures of a changing climate. The environmental degradation along the Mediterranean, Black Sea and Atlantic coasts represent a major human and environmental threat. On **land**, the changing climate is not only disrupting agriculture due to unpredictable weather patterns but soil fertility is diminishing in many countries due to exploitative land use patterns. The rise of urban population and lifestyle generates increased **municipal and industrial wastes**, and deteriorates **air quality**.

The EBRD COOs are signatories to a range of international environmental treaties. COOs in the EU are subject to EU environmental policies and strategy and are part of the **European Green Deal** which sets out to make Europe the first climate-neutral continent in the world by mid-century. In the case of the **Paris Agreement**, adopted in 2015 at COP21, all COOs, except Kosovo and Turkey[1], have ratified and have submitted their first Nationally Determined Contributions (NDCs) to the UNFCCC.

GET2.1 FORMULATION

While there have been encouraging specific breakthroughs such as the development of renewable energy in SEMED and Poland, and progress in some COOs in decoupling growth from energy intensity, significant gaps remain across the EBRD regions of operations in terms of their transition to a green low carbon economy. This will increasingly affect productivity, competitiveness, innovation and jobs.

This transition presents **significant opportunities and challenges for the COOs** which will need to both reduce the **energy intensity** of their economies (in particular through energy efficiency), reduce the **carbon intensities** of their energy (through decarbonisation) and improve the **resilience** of their assets to climate change. Furthermore COOs will have to confront a range of **environmental issues** including air pollution from electricity, heat, transport and industry and water issues which are expected to deepen while natural capital tends to be under pressure across the region. A particular opportunity and challenge will be the management of a **'just transition'**.

The formulation of the new EBRD GET approach takes into account the context brought about by COVID-19 highlighting areas of opportunity to support a **green recovery** contributing to the acceleration of the transition to a low carbon economy and the achievement of a net zero carbon world by 2050.

Reflecting the urgency to address the environmental issues in the EBRD regions of operations which have the potential to affect the sustainability of local economies, and taking account of the experience and track record of the EBRD in this area, GET 2.1 sets an **ambitious target green finance ratio of more than 50% by 2025**. The measurement of this ratio will be done on the basis of a robust methodology and governance. This high GET target ratio is an important priority, to be pursued in a manner consistent with the strategic directions ultimately approved by the Board of Governors in the forthcoming Strategic and Capital Framework (SCF). As climate change mitigation is one of the important objectives of GET2.1, the Bank will seek to achieve net **greenhouse gas (GHG) emissions reduction of 25 to 40 million tonnes over the GET2.1 period** based on cumulative ex-ante estimates.

The achievement of this target ratio will depend on important factors including: (i) the timing and extent to which **COOs adopt a green recovery approach** emerging from the rescue phase; (ii) the **timely allocation of incremental internal resources** indicatively estimated at over 100 additional staff to drive increased activity, innovation and the strengthening of internal systems; and (iii) the availability of **external funds** to implement a range of innovative measures in light of pervasive market failures which discriminate against green sectors. The pursuit of this target will allow to cover other transition qualities with GET projects often involving other qualities of transition than green. Nonetheless, achieving the ambitious level of GET activities within the overall strategic directions of Bank may present challenges as well

[1] Kosovo is not a party to the UNFCCC and Turkey has signed but not ratified.

as opportunities. The Bank has shown its ability during GET1.0 to manage appropriately such risks with the delivery of a significant increase in the GET ratio within the strategic directions of the current SCF. And it will apply its best efforts to replicate such results for GET2.1.

Reflecting experience with the implementation of GET1.0 and taking account of feedback from the Board, and reports from EvD and Internal Audit, GET2.1 will introduce an **enhanced set of indicators** supporting evolving and incremental disclosure requirements. In pursuing the GET finance target, the Bank will track strategic parameters including the private sector share of GET finance, the level of climate finance, mobilisation related to GET projects, and the adaptation share of GET finance.

Building on its mandate, business model and experience to date, the EBRD can support its COOs to accelerate their transition to a green low carbon and resilient economy by evolving from a **mainstreaming to a systemic approach**. Given the scale of the challenge, the Bank should seek to further increase its impact both through the increased scale of its operations and through achieving impact beyond its own financing by creating green market opportunities pursued by a range of other economic players. Accordingly the evolution from a mainstreaming to a systemic approach involves the following components:

- implementing an operational framework to **alignment with the principles of international climate agreements, including principally the Paris Agreement;**
- **enhanced country policy work** supporting long term low carbon strategies and greening of financial systems; and
- structuring its work across a set of specific **thematic intervention areas** to increase scale of impact, foster innovation and enhance visibility.

This approach builds on and complements the mainstreaming practice developed by the Bank over the past 15 years in the green climate area. Its implementation will take into account overarching themes such as the promotion of **equality of opportunity**, including **gender** and a **just transition**, and the development of **digital solutions** to support the acceleration of the transition to a green low carbon economy. In pursuing this approach, the Bank will maintain its private sector focus as already reflected in GET1.0.

The Bank will continue to align its investments with the principles set out in international climate agreements, including principally the Paris Agreement. In terms of **operating framework**, systemic evolution would be achieved through the implementation of an operational approach to alignment with the Paris Agreement goals jointly developed by the Multilateral Development Banks (MDBs). The implementation of this approach would mean that in support of national climate-related action plans every project would be systematically assessed in relation to its mitigation and adaptation impact giving due consideration also to country objectives. Acknowledging the intent of most shareholders, the Bank will work towards full alignment with the Paris Agreement on which a decision will be taken no later than 2022, taking into account the lessons learned from the initial phase.

The joint approach developed by the MDBs provides a flexible operational framework designed to ensure consistency and comparability in the alignment process while allowing each institution to calibrate its climate contribution in line with its mandate and institutional priorities. This alignment approach will be a dynamic process, requiring regular review to reflect evolving climate change science, technological developments, and changing policy environment and business conditions.

In terms of **policy** work, the Bank has already established a capacity to achieve systemic impact, for example through practical support to COOs in developing green strategies and plans, legislation, regulations and standards. These measures when implemented have an impact beyond individual projects opening new market opportunities and developments. This activity would be pursued and scaled-up where required to respond to country demand. Particular emphasis will be placed to support the development of long term decarbonisation strategies and of green financial systems which have the potential to significantly accelerate the transition to a green low carbon economy.

In **operational** terms, the new GET approach involves the definition of specific **green transition acceleration thematic areas** to **scale-up** activity and drive **innovation** in priority areas of opportunity in the EBRD regions reflecting COO objectives, the Bank's experience and operating model. Effectively implemented, activity in these thematic areas will contribute to enhancing both the scope of activity and the efficiency of delivery of GET2.1.

The definition of the thematic areas reflects a **regional assessment of the relevance and business opportunity** related to each area, taking account of the Bank's mandate and operating model. These areas cover both climate mitigation and adaptation, and other environmental areas, involving a range of operational activity underpinning the achievement of the GET target ratio. Thematic areas include green financial systems, energy systems, industrial decarbonisation, sustainable food systems, natural capital, cities and environmental infrastructure, sustainable connectivity and green buildings. Energy efficiency and climate adaptation are cross cutting themes with relevance across most thematic areas.

EBRD GET1.0 TRACK RECORD 2016-2019

The development and implementation of GET2.1 will benefit from the **experience and track-record** of the Bank during GET1.0, as well as from lessons learned to date.

In the run-up to COP21, the EBRD set an ambitious target for GET1.0 to achieve a **40% GET ratio** relative to its total annual investment by 2020. This represented a significant step-up compared to an average green finance ratio in the preceding five-year period of 28%.

The EBRD **reached, and even exceeded, the target GET ratio path for each year between 2016 and 2019**, with the GET ratio reaching 43% in 2017 and 46% in 2019. Cumulative GET EBRD finance for this period reached €15.0 billion, **up 42%** compared to €10.5 billion in the previous four years. Climate finance accounted for 94% of overall GET finance including projects with other environmental co-benefits. In line with the Bank's operating model, the average **private sector share of GET finance** was **59%**. These results were achieved with the **strong support of bilateral donors, the EU and global environmental funds**.

Reflecting its overall objectives, GET1.0 pursued the development of **both climate finance and activities with other environmental objectives**. In many cases, GET finance supported projects or project components with both climate and other environmental benefits. Accordingly, the **share of environmental finance including projects with climate co-benefits** has been **18%** during the period 2016 to 2019.

These GET financing results were achieved through the **continuing mainstreaming of GET activity across sectors, countries and regions of operations** reflected in the rise of the GET ratio across business segments. From a regional perspective, the GET ratio doubled in South-Eastern Europe from 24% to 48% and reached 52% in Eastern Europe and the Caucasus in

2019. From an individual country perspective, the average GET ratio over the period 2016 to 2019 was above 40% in 14 countries, and below 20% in 6 countries.

The EBRD issued its first **green bonds** in 2010 to fund its Environmental Sustainability Bond programme. Since then it has issued 92 bonds in 13 currencies for a total of €5.2 billion by end 2019 with several innovative aspects including an inaugural five-year USD 700 million Climate Resilience Bond.

The Bank established a specific GET assessment process including the **GET Clearing House** and the **GET Handbook**. In preparing for more comprehensive and financial-based TCFD and PRI disclosures, the Bank has started to assess more systematically and comprehensively **climate-related financial risks** across the Bank's portfolio.

As reported in successive Sustainability Reports, the EBRD has been **carbon negative** over each year of the GET1.0 period with the carbon balance between projects with net positive emissions and carbon emissions reduction projects estimated at a negative 11.2 million tonnes CO2. Since 2018, the Bank has been a carbon neutral institution, abating the GHG footprint of its internal operations by purchasing carbon credits.

The main **lessons learned** arising from implementation to date cover the following topics: (i) individual project approach; (ii) policy and market creation; (iii) business tools; (iv) mobilisation; (v) methodologies, data quality, systems and governance; and (vi) partnerships and knowledge sharing. These lessons arise from both operational experience and the work of EvD and Internal Audit and have been taken into account in the formulation of GET2.1

GET2.1 IMPLEMENTATION

Transition impact (TI). The GET2.1 thematic areas will have a strong green TI focus. However, they will contribute to other transition qualities including, for example, the global competitiveness of key industries, the enhancement of governance and inclusion practices, better integration (physical and digital) of geographical areas, the resilience of energy systems and of the economy in general. During GET1.0, the Bank has implemented an approach for assessing the economic impact of projects with high greenhouse gas emissions which incorporates shadow carbon pricing.

Enhancers of the "green" transition quality in individual transactions or frameworks include: (i) policy engagement such as strategies, legislation, regulations and standards; (ii) innovation in green technologies, products, processes and business models; (iii) scale of impact as the magnitude of the environmental impact continues to be an important factor to consider from a TI perspective; and (iv) efficiency of impact.

Financing instruments. GET projects are financed with a broad range of EBRD financing instruments. Reflecting the Bank's private sector orientation, the main financing instruments for GET projects are private and public non-sovereign loans, which accounted for 59% and 11% of GET finance respectively between 2016 and 2019.

GET activity is being developed in a context with significant market failures including in particular the lack of internalisation of environmental costs in the prices of goods and services. To address the resulting market barriers and risks, the Bank pursues a robust and targeted approach to the use of concessional blended finance instruments. The design of

these instruments for climate action is regulated by the application of internal guidelines for the use of co-investment grants and donor co-financing.

Mobilisation. The transition towards a green low carbon economy requires large-scale investments well beyond the capacity of the public sector. Accordingly, mobilising and orienting private capital flows towards sustainable investments is crucial. While prospects for GET-linked mobilisation will be dependent on market conditions, the enhancement of private sector finance mobilisation- a priority for the Bank overall - to support the green low carbon transition will be pursued by scaling-up where possible the deployment of syndications, capital market and guarantee instruments, and by examining the possibility of parallel co-investment agreements with institutional investors.

GET methodology. The Bank GET methodology has provided a disciplined approach supporting the analysis of GET projects and the tracking of green financial flows during the GET1.0 period. However, operational experience has revealed some specific issues and areas for improvement and optimisation. Accordingly, the GET2.1 assessment and finance attribution will be based on enhanced principles and operational arrangements in GET **governance, methodology, data management** and **processes** to address the issues emerging from practical experience, to reflect relevant external developments in sustainable finance and to improve integrity, governance and operational efficiency.

External partnerships. The implementation of GET2.1 will rely on the further development of partnerships to deliver further value to COOs and private sector clients. Effective partnerships at country level boost ownership and contribute to local capacity building. Building on its network of relationships, the Bank will pursue the development of **institutional, policy, business, funding and technical partnerships**. Active collaboration with the MDBs will be pursued on the development of market-based instruments, of practices and systems for climate risks assessment and management, on the implementation of the operational approach to Paris Alignment, and in supporting COOs in the formulation of enhanced long term strategies (LTS) and NDCs.

External funds support a broad range of investment co-financing, policy dialogue, technical analysis, project preparation and implementation, and capacity-building activities. These funds have been essential to creating enabling business environments, accelerating the development of markets for new technologies and catalysing investments by mitigating risks and alleviating challenging market barriers. Accordingly, the mobilisation of donor funds will remain a core driver of the Bank's environmental and climate related activities building on strong working relationships established with major global climate funds such as the **GCF**, the **CIF** and the **GEF**, with the **EU**, with **donors either on a bilateral basis or in multi donor arrangements** and with **EBRD shareholders** in the context of the **SSF**.

Skills. GET 2.1 will require a range of new skills driven by: (i) new specialist skills linked to innovation areas and emerging themes; and (ii) an evolution towards a more systemic approach to accelerate the low carbon transition (such as low-carbon pathways, national climate action plans and corporate climate governance). Taking account of the sustained strategic focus on this area and of rapid technological advances, a range of approaches could be used to further improve the Bank's ability to acquire, maintain and develop the necessary leading-edge environmental expertise to implement GET2.1.

1. INTRODUCTION

The EBRD initiated a focused operational environmental and climate activity in 2006 with the launch of the Sustainable Energy Initiative as part of its third Capital Resources Review covering the period 2006-2010. Since then, building on the support from its shareholders, on demand from clients across its regions of operations and on a successful delivery, this activity has expanded with the Green Economy Transition (GET) approach approved in 2015 (BDS15-196 (Final)).

This document defines the new EBRD Green Economy Transition (GET) approach for the period from 2021 to 2025. Reflecting evolving opportunities and challenges across the EBRD countries of operations (COOs), enhanced capacities and lessons learned, this new approach proposes to further scale-up existing activities, to optimise activity in specific functional areas and to develop new activities contributing in practical terms to a green economic recovery following the severe impact of the COVID-19 health emergency. It responds to the priority placed on supporting the acceleration of the transition to a green low carbon economy discussed in the context of the preparatory work for the upcoming SCF 2021-2025.

This document provides the basis for consideration and approval by the Board of Directors of the new EBRD Green Economy Transition approach for the period 2021 to 2025. It takes into account the written comments received from Directors as part of the early consultations in March 2020 on the presentation "Accelerating the Transition to a Green Low Carbon Economy" (SGS20-092).

For ease of reference, the initial GET approach for the period 2016 to 2020 is referred to as GET 1.0. For the period 2021 to 2025, the new GET approach is referred to as GET2.1 to reflect how, beyond GET2.0, the Bank's work on the green economy transition can contribute in practical terms to the economic recovery following the severe impact of COVID-19 on the global economy, and in particular in the EBRD COOs.

The 'Green Economy' concept continues to provide the basis for a comprehensive and consistent approach grounded in the Bank's business model and building on its track record. Based on an examination of definitions of the green economy, and taking account of its mandate and operating principles, the EBRD defines the 'Green Economy' as follows:

> A green economy is a market economy in which public and private investments are made with a specific concern to minimise the impact of economic activity on the environment and where market failures are addressed through improved policy and legal frameworks aiming at accounting systematically for the inherent value of services provided by nature, at managing related risks and at catalysing innovation.

This document is structured according to the following sections and topics:

- Section 2 describes the strategic thrust and each component of the new GET2.1 approach;
- Section 3 covers implementation aspects;
- Annex 1 provides an overview of the environmental context in the EBRD regions of operations and at the global level; and
- Annex 2 examines the track record of the EBRD during the first four years of implementation of GET1.0.

In the same way that the Bank achieved strong GET results from 2016 to date, this document is the result of a unified Bank building on contributions from a broad range of departments. These include the Administration Services Department, Banking sector and country business groups including the GET Ambassadors Network, Communications, Corporate Strategy, Data Management, DCF, EPG, ESD, Finance, Gender and Inclusion, HROD, LC2, OCE, OGC/LTT, OSG, Risk Management and Treasury.

2. GREEN ECONOMY TRANSITION APPROACH 2021-2025

2.1 GET 2.1 approach

Consistent with GET1.0, GET2.1 will pursue the development of Bank activity on climate change mitigation and adaptation, and on activity with other environmental benefits.

COVID-19 and climate. COVID-19 emerged rapidly with science still seeking to understand the virus and very little time for authorities and businesses to prepare their responses. In contrast, scientific evidence on climate change has been building for decades with physical observations confirming previous projections. In certain cases, observed physical developments have been happening faster than projected as is the case for the loss of land and sea ice, and the occurrence of weather extremes. The 1.5 degree report issued by the IPCC in October 2018 provided a stark warning based on the work of 800 scientists mentioning a **limited timeframe of around a decade to curb the carbon emissions curve**. The science is clear and there is still a narrow window for effective action.

Climate change carries the risks of generating massive and widespread damage and disruption of far greater magnitude than COVID-19. This includes the expectation that climate change can also be related to further the extent and impact of pandemics in the future. A prescient report from the WEF in early 2019 in collaboration with the Harvard Global Health Institute on "Outbreak Readiness and Business Impact: Protecting Lives and Livelihoods across the Global Economy" concludes that: "climate change is leading to changes in transmission patterns of infectious disease, potentially accelerating outbreaks of Zika, malaria and dengue fever."

Taking account of the limited timeframe left to reduce carbon emissions to keep global temperature increase within 1.5 degree, the significant stimulus which will be required to offset the impact of COVID-19 must support a **green recovery**. This will contribute to avert the massive implications from a climate crisis with irreversible consequences over a period of several generations.

The formulation of the Solidarity Package 2 (BDS20-053(Rev 1)) already highlighted the green dimension as part of the rapid response of the EBRD to the challenges confronted in the short term by clients and COOs mentioning that: "Maintaining the green transition is a core priority of the Bank currently and will remain so. This continued **'Tilt to Green'** is reflected now in the crisis response and for the future in the preparation of the new Green Economy Transition approach for the period 2021 to 2025."

Accordingly, the preparation of the new EBRD GET approach takes into account the new context brought about by COVID-19 highlighting areas of opportunity to support not only economic recovery, but a green recovery contributing to the acceleration of the transition to a green low carbon economy and the achievement of a net zero carbon world by 2050. This moves the initial formulation of GET2.0 which remains overall valid towards a GET2.1 which connects the transition to a green low carbon economy to the definition of economic recovery initiatives.

Opportunities and challenges for COOs. As described in section A1.1.1, the EBRD regions of operations confront a range of environmental issues aggravated in many cases by climate

change. While there have been encouraging specific breakthroughs such as the recent development of solar energy in SEMED or of wind energy in Poland, and progress in some countries in decoupling growth from energy intensity, significant gaps remain across the region of operations in terms of its transition to a green low carbon economy. This will increasingly affect productivity, competitiveness, innovation and jobs.

Environmental sustainability is at the heart of the **Sustainable Development Goals (SDGs)** and of the **European Green Deal** with the **Paris Agreement** setting a clear goal to limit global average temperature increase to well below 2 degrees C. The 1.5 degree IPCC special report shows that climate change is happening at an accelerating pace with increasingly severe effects and that investments in low-carbon technology and energy efficiency need to increase by a factor of five to achieve this goal. While the urgency to address the climate change is clear, it is important for GET2.1 to address specific environmental issues in COOs highlighted in section A1.1.1. These include air and water quality, waste management and wastewater treatment, the shift to sustainable and smart mobility, natural capital preservation including marine resource and coastal zone management, the active promotion of a clean and circular economy, and of a healthy and environmentally friendly food system.

The transition to a green low carbon climate and resilient economy following a sustainable development trajectory in line with the SDGs is the **growth story for this century** as argued analytically by the Global Commission on the Economy and Climate. This transition also offers a range of opportunities to support the economic recovery post- COVID-19 and to 'build a better future'.

This shift presents significant opportunities and challenges for the COOs which will need to reduce the **energy intensity** of their economies (in particular through energy efficiency), reduce the **carbon intensities** of their energy (through decarbonisation) and improve the **resilience** of their assets to climate change. This involves a massive transformation including the **decarbonisation of the energy sector** and a focused effort to **reduce carbon emissions in harder-to-abate sectors** such as heavy industry and transport, including through resource efficiency and the adoption of increasingly circular business models and practices. Furthermore air pollution from electricity, heat, transport and industry is increasingly a critical social concern with concentrations of particulate matter exceeding the WHO recommended limit in almost all COOs. A number of countries also confront **water** issues which are expected to deepen while natural capital tends to be under pressure across the region. A particular challenge will be the management of a 'just transition' providing opportunities of a more diversified economy.

Evolving to a Systemic Approach. Since the launch of the Sustainable Energy Initiative in 2006, the Bank has focused on mainstreaming its green finance activity across its sectors and COOs. In operational terms, this increased mainstreaming is reflected in the rising GET ratio across sectors and regions with the average GET ratio over the period 2016 to 2019 being above 40% in 14 COOs.

Considering the scale and the urgency of the challenge, the Bank will seek to **further increase its impact** in defining its new GET approach both through the increased scale of its operations and through achieving impact beyond its own financing by creating green market opportunities pursued by a range of other economic players. Accordingly the evolution from a mainstreaming to a systemic approach involves the following components:

- implementing an operational framework to **alignment with the principles of international climate agreements, including principally the Paris Agreement;**
- **enhanced country policy work** supporting long term low carbon strategies and greening of financial systems; and
- structuring its work across a set of specific **thematic intervention areas** to increase scale of impact, foster innovation and enhance visibility promoting environmental integration across targeted sectors and providing for sustainable environmental solutions.

This more systemic approach **builds on the mainstreaming practice** developed by the Bank over the past 15 years in the green climate area. It benefits from the practices and experience established to date and would be developed on three levels involving operating framework, policy and operational approach as described below. In pursuing this approach, the Bank will maintain its **focus on the private sector** which has already been the case during GET1.0 (see Table A2.1 in Annex A2.2). This will be naturally supported by GET financing in the financial and corporate (ICA) sectors which were almost 100% in the private sector. Opportunities for private sector operations will also be pursued in infrastructure as has already been the case for example for renewable energy.

In terms of operating framework, the systemic evolution through the implementation of the **operational approach to alignment with the Paris Agreement goals** jointly developed by the MDBs means that every project would be systematically assessed in relation to its mitigation and adaptation impact as described in section 2.3.

In terms of policy work, the Bank has already established a capacity to achieve systemic impact through practical support to develop **green strategies and plans, legislation, regulations and standards**. These measures, when implemented, have an impact beyond individual projects, often opening new market opportunities and developments. Policy activity would be pursued and scaled-up where required to respond to country demand. Reflecting rising interest in COOs and increased activity at national and international levels, the Bank will place an emphasis in supporting the development of **green financial systems** which have the potential to significantly accelerate the transition to a green low carbon economy both in scale and in depth within each local financial market. The enhanced policy component is described in section 2.4.

In operational terms, the systemic approach involves the definition of **specific thematic areas** reflecting both priority areas in the EBRD regions and the Bank's experience and operating model with the objective to scale-up activity and drive innovation. Effectively implemented, activity under these thematic areas will contribute to enhancing both the scope of activity and the efficiency of delivery of GET2.1. The Bank's operations will take account of the trade and investment policy and regulatory frameworks in its COOs. This approach by thematic area will generate a range of benefits described in section 2.5.

While it is still early to define precisely a full range of **green recovery measures** as part of the implementation of GET2.1, section 2.5.4 identifies thematic areas which can contribute to support a green economic recovery. The thematic areas contain a number of short term green recovery opportunities which support job creation, have low capital intensity and are deployment ready based on existing technologies and solutions. Green recovery activities should also support the acceleration of sustainable infrastructure financing, **"building back better" to drive a sustainable, resilient and inclusive recovery**. The connection between

green recovery and innovation will be explored, in particular in relation to the development of circular businesses which can create jobs and reduce material intensity in the COOs.

Mainstreaming dimensions. This paper provides the approach for implementing one of the three strategic themes of the forthcoming SCF. The other two proposed strategic themes are very relevant to the development and implementation of GET2.1, and will be overarching mainstreaming dimensions of the work proposed:

- a strong focus on topics related to promoting **equality of opportunity**, and in particular **gender** and the application of a **just transition** approach to provide sustainable economic and job alternatives to communities reliant on sectors due to decline in a low carbon future; and
- an operational approach to the application of **digital solutions** to support the acceleration of the transition to a green low carbon economy.

Gender. Gender-responsive climate action is an international priority. The UNFCCC adopted an enhanced five-year work programme and gender action plan in 2019, aiming at women's full, equal and meaningful participation in the leadership on climate action.

The Bank's ability to design and implement **gender-responsive climate finance** programmes is unique and has helped develop strategic partnerships. Climate funds (such as the Green Climate Fund and the Climate Investment Fund) champion a gender-responsive approach, acknowledging that capacity building, knowledge management and the sharing of experience, are essential to supporting relevant actors in designing and implementing gender-responsive climate action and for increasing the effectiveness and scaling up of these measures.

During the GET2.1 period, the Bank will continue to develop the gender and climate environmental nexus by scaling-up activities across the region, where climate challenges and gender gaps remain prevalent and highly important. The approach will target a broadening and deepening of:

- strategic synergies based on the experience from the Bank's growing number of gender-responsive GET projects to enhance staff and client capacity to deliver on gender mainstreaming opportunities (e.g. promoting gender equality in low-carbon and climate-resilient pathways);
- support for equal access to and uptake of low-carbon and climate-resilient technologies (e.g. via GEFF credit lines), and equal access to services as well as skills and employment opportunities (e.g. via gender-responsive green cities and infrastructure, and renewable energy programmes);
- the equal participation of women in governance roles, including accelerating the adoption of corporate climate governance and developing gender-responsive green corporate action plans; and
- strengthened implementation, embedding additional expertise in sectors as well as closer to the clients in regional offices, guided by greater use of 'gender toolkits' and 'gender smart tag' to identify gender-specific entry points, gender gaps and the appropriate policy, capacity building and financing responses.

Just Transition. Since the start of the transition process, COOs have achieved remarkable progress across a range of areas. However, despite this positive aggregate picture, not everyone has benefitted. Indeed, more than half of all people in the region have not seen their earnings converge with those of people living in Western Europe with two thirds of

income inequality in the region accounted for by inequality within countries. Accordingly, the Bank is focusing on the concept of just transition so that the **benefits of transition are shared widely**, including by those who stand to lose economically – be they countries, industries, communities, workers or consumers. The importance of considering the **distribution of costs and benefits of a green economy transition** has become even more prominent in the context of COVID-19 pandemic recovery, which has exacerbated existing inequalities and created new economic risks for sectors, regions and people.

This concept has particular relevance in the context of the transition to a green low carbon economy. Target groups who may require support include countries that are fossil fuel exporters, heavy industries and other energy-intensive firms, communities whose livelihoods are linked to fossil fuels, and poorer consumers who could be adversely impacted if policies are designed in a socially regressive way. The extent of vulnerability will depend on a range of factors, which vary substantially across COOs, including industrial structures, connectivity and labour market mobility.

Work in this area in the context of GET2.1 will include: (i) furthering the green economy transition through additional green investments and the repurposing of vulnerable assets; (ii) promoting access to alternative employment through reskilling and enhancing entrepreneurship; and (iii) supporting regional economic development and diversification including financing SMEs, larger firms and sustainable infrastructure projects. Helping to manage a just transition is expected to have particular linkages with the Energy Systems, Industrial Decarbonisation and Cities and Environmental Infrastructure thematic areas.

Digital solutions are an important driver of the acceleration to a green low carbon transition. Accelerating the digital transition will therefore have a strong green component as part of the forthcoming SCF.

Green digital solutions are particularly relevant for economic activities that have a high potential to adopt digital technology to enhance the efficiency of existing infrastructure operations, to reduce energy and carbon intensities and overall GHG emissions across sectors, to develop 'smart city' technologies to optimise urban network operations or to reduce the use of nitrogen and associated nitrous oxide emissions from agriculture.

Furthermore, **digital solutions can support environmental and resource efficiency** by:

- tracking materials, product, resources and waste streams to optimise supply chains and introduce circular economy models (e.g. by digital tagging of products);
- remote sensing technologies to monitor impacts on eco-systems (particularly relevant for land use, forestry and mining sector);
- enabling access to information, markets, finance or health care in regions negatively impacted by climate change.

The digital transition relates to the green transition in two directions. The above examples show how the green transition can be enhanced by the digital transition (inside out). Conversely, the digital transition impacts the green transition through, for example, sharply increasing energy requirements (outside in).

Digital solutions will be an important determinant of GET2.1 innovation including areas such as:

- the use of the Internet of Things (IoT) in (i) the agriculture and agribusiness sector through the introduction of smart agriculture and technologies to monitor sustainable land use based on remote sensing and real time data; and (ii) monitoring of energy use for enhanced energy efficiency;
- the use of big data and machine learning algorithms to analyse increasing volumes of satellite and sensor data in the context of: (i) the assessment of climate vulnerabilities; and (ii) the better design of energy efficiency and climate resilient projects which are both highly location specific; and
- Innovative technologies in supply chain management, such as chemical tracing and digital watermarking technologies.

GET2.1 provides also the opportunity to promote **good governance** including: (i) public governance, looking at developing transparent, fair and inclusive policy, legal and institutional frameworks, and (ii) governance of private institutions (or corporate governance), which plays a fundamental role in ensuring the inclusion of social and environmental (including climate) considerations in the decision-making process. A focused approach to improving Corporate Climate Governance (CCG) with clients will be pursued to develop tools for implementation of best practices related to: (i) governance and accountability; (ii) strategy and risk management; and (iii) reporting, metrics and targets. This work will be supported by refining the existing CCG materials to ensure robust, transparent and harmonised corporate governance and disclosure standards are adopted in the Bank's operations.

Partnerships. Since the launch of the Sustainable Energy Initiative in 2006, the EBRD has established a strong track-record of collaboration with a range of partners at the local, sectoral, national and international levels. The implementation of GET2.1 will rely on the further development of partnerships in terms of delivering value to COOs and private sector clients and to enhance the efficiency of the GET2.1 thematic areas as described in section 2.5. Effective partnerships at country level boost ownership and contribute to local capacity building. At international level, partnerships advance knowledge, define best practice, and accelerate knowledge transfer in line with the objectives of SDG 17[2]. They also allow the Bank to contribute the expertise developed in its COOs at the global level in areas of comparative advantage such as energy efficiency.

Together with the other **MDBs**, the EBRD can play a significant role in supporting its COOs to develop and implement policy and investments supporting a green recovery. The EBRD, and the MDB system, have a key role to play in the challenging period ahead to support the formulation of green recovery policy and investment plans, to buttress investor confidence, to build institutional capacity and to scale-up green finance. Reflecting its mandate and operating model, the EBRD has a particular role in supporting the role of the private sector in the green recovery working closely with the governments of its COOs. GET2.1 provides the strategic and operational blueprint for the EBRD to fulfil this role.

As in GET1.0, the successful development and implementation of GET2.1 will rely on a strong 'One Bank' with contributions from a broad range of departments coordinated through the Climate Action Network.

2.2 GET 2.1 target

[2] SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development.

The setting of the 40% GET finance target ratio was made in the context of discussions on climate finance, including the **role of the MDBs**, leading to COP21 in the fourth quarter of 2015. This represented a sharp increase in relation to a 25% target and an average green finance ratio of 28% achieved during the preceding CRR4 strategy period from 2011 to 2015. As described in section A2.2, the Bank delivered strong green finance results during GET1.0 exceeding the 2020 40% target ratio twice during the period 2016 to 2019 on the basis of a robust methodology and governance.

This performance has contributed to the overall strong climate finance results achieved by the MDBs since COP21 with MDB climate finance rising by 72% between 2015 and 2018. **Climate finance** is expected to remain a core topic of discussion at the upcoming **COP26** and MDBs are expected to be called to further increase their contribution to climate finance to emerging and developing economies building on their unique blend of policy, investment and capacity building.

In light of the above, the GET finance ratio remains a core parameter not only for the EBRD but within the overall MDB and climate finance system. This ratio has provided a clear target in operational terms within the Bank supporting an effective and transparent base for performance assessment and incentives. As such, it has been a determinant of GET mainstreaming across sectors, regions and countries of operations.

The GET ratio is already a key operational parameter of the 2020 scorecard contained in the SIP2020-2022, and has been set at a level of 40%. Reflecting the urgency to address the environmental issues in the EBRD regions of operations which have the potential to affect the sustainability of local economies beyond the current situation and taking account of the experience and track record of the EBRD in this area, GET 2.1 sets to achieve an ambitious target green finance ratio taking account of both transition business potential and the strategic directions of the forthcoming SCF.

The assessment of GET2.1 transition business opportunity has considered results achieved to date in GET1.0 across sectors and countries, and the potential associated with increased activity across the thematic areas described in section 2.5.2. As seen in section 2.5.3, the relevance and transition business opportunities related to each thematic area vary from region to region. Accordingly, the ability to pursue a broad range of areas supports both a better ability to respond to regional needs and opportunities, and to increase over time the level of GET activity.

The formulation of an ambitious GET2.1 finance target also takes into account the following assumptions:

- It is assumed that countries will adopt **clear and decisive early policies** that trigger an ambitious switch to green. A major factor will be the timing and extent to which COOs adopt a green recovery approach emerging from the rescue phase. If the opportunities of integrating green in recovery programmes are taken early on and decisively, the base to achieve an ambitious target will be there. Conversely, backsliding on the environmental agenda would make it very difficult, if not impossible to achieve an increased target relative to GET1.0.
- It is assumed that significant **incremental resources** will be deployed to implement GET2.1. As mentioned in section 3.6, the timely allocation of resources for GET1.0 was a key determinant of results achieved. Scaling-up, systematising the approach, promoting innovation and improving controls require investment in staff. The later additional staff

come on stream, the later the deployment of products and policy work which contribute to the achievement of the target. Accordingly, it is important that GET2.1 resource requirements be reflected in the upcoming SIP2021-2023 for consideration by the Board for a timely deployment in support of effective implementation.

- The availability of **external funds** also contributed to the strong results achieved in GET1.0. Going forward as described in section 3.5, and assuming sustained market failures in reflecting environmental costs in the prices of goods and services, external funding will remain an important determinant both for the scaling up of blended finance projects and for the development and implementation of innovative products.

On the basis of an assessment of potential related to the thematic areas and of the above assumptions, **GET2.1 sets to achieve a green finance target ratio of more than 50% by 2025.** The measurement of this ratio would be done on the basis of a robust methodology and governance described in section 3.3 taking account of experience to date and lessons learned. As mentioned above, the definition of this target takes account of the GET share achieved to date and of the potential contribution of activity across the range of GET2.1 thematic areas. This high GET target ratio is an important priority, to be pursued in a manner consistent with the strategic directions ultimately approved by the Board of Governors in the forthcoming SCF.

As climate change mitigation is one of the important objectives of GET2.1, the Bank will seek to achieve net **GHG emission reduction of 25 to 40 million tonnes** over the GET2.1 period based on cumulative ex-ante estimates. The determination of this range reflects the following factors:

- the share of adaptation finance relative to total GET finance;
- the share of non-climate environmental finance relative to total GET finance;
- sector priorities including for example the share of GET finance to SMEs;
- GHG emission accounting methodologies and benchmarks used for setting the baseline for emissions reduction estimates; and

The proposed range would allow the Bank to achieve a balance across the different components of the GET approach, spurring, for example, high levels of energy efficiency activity across sectors. It is relevant to note that the upper end of the range is not a limit, and if opportunities occur during the period to exceed this upper end in a balanced manner across GET objectives, the EBRD will actively pursue these opportunities. The achievement of this reduction will be in line with the Bank's Energy Sector Strategy.

As the activity of the Bank over the next couple of years is likely to include a significant share of activities focusing on short term financial support as described, for example, in the Resilience Framework and Vital Infrastructure Support Programme, the scope of green finance may be more limited as clients and countries of operations focus on the rescue phase. This is likely to affect negatively the GET ratio in the short term. As the focus shifts to the recovery phase and to stimulus, and assuming that that the green dimension is embedded in a green recovery approach, the scope for GET activity will increase.

In setting and pursuing this target, it is Important to note that this would not be done 'at the expense' of other transition qualities. Section 2.1 outlined for example how the gender/inclusion quality is reflected across a number of GET operations. Similarly as mentioned in the summary description of the thematic areas in section 2.5.2, individual areas provide the **opportunity to support different transition qualities**. This is the case, for

example, of sustainable connectivity with integration, of green finance with governance through corporate climate governance work in FIs, of adaptation with resilience and of industrial decarbonisation with the competitive dimension.

Reflecting the thematic areas in outlined in section 2.5.2, examples of GET2.1 opportunities from a sectoral perspective include:

- For **sustainable infrastructure**, continued activity in renewable energy, reinforcement of electricity grids and interconnections, green and smart cities, waste management, water infrastructure, low carbon transport infrastructure and climate resilience. This would be complemented by an increased focus on cutting edge areas such as e-mobility and green hydrogen. While the scope for investment in these new areas is expected to be limited during the GET 2.1 period, important foundations must be laid in regulatory developments and pilot projects to facilitate the mainstream role these are expected to play in the second half of this decade.

- In the **financial sector**, the Bank's ability to build on its network of green finance banks combined with an enhanced capacity to develop green capital market products should provide the basis for growth from levels achieved during the GET1.0 period over the medium term. This assumes a gradual greening of local financial systems in COOs driven by increasingly stringent disclosure requirements and regulatory alignment.

- Similarly, GET2.1 thematic areas should provide opportunity for the growth of GET activity in the **corporate sector** relative to historic levels in areas such as decarbonisation of energy intensive sectors in industry, sustainable food systems, green buildings and green digital solutions. Several of these thematic areas offer cross-sectoral synergies, for example in supporting the establishment of circular supply chains.

As mentioned above, the strategic directions adopted in the forthcoming SCF will provide the framework within which GET2.1 objectives are pursued. This may lead to calibrate certain types of GET activity impacting on the ability of the Bank to reach the stated target. This may include for example managing the level of sovereign activity and geographic composition in line with SCF strategic directions. Another risk concerns the rate of development of activity pursuing other transition qualities which should not be constrained by the specification of a high GET target. Accordingly, the fast growth of the GET ratio denominator reflecting for example a rise in projects driven by the inclusion or resilient transition qualities could result in a decrease in the overall GET ratio associated to an overall higher level of activity and impact across the range of its transition qualities. For transparency purposes, it is relevant to mention these potential risks which may impact the achievement of the GET2.1 target. However, the Bank has shown its ability during GET1.0 to manage appropriately such risks with the delivery of a significant increase in the GET ratio within the strategic directions of the current SCF. And it will apply its best efforts to replicate such results for GET2.1.

As described in section 3.7, this target will be complemented by two sets of measures. At an aggregate level, GET2.1 would include four compositional parameters reflecting important EBRD performance areas including:

- the private share of annual GET ABI;
- the annual level of climate finance;

- the annual adaptation share of GET activity both in terms of ABI and number of operations;
  and
- mobilisation reflecting the MDB climate finance mobilisation methodology.

These aggregate indicators will allow to track the relationship between GET activity and important strategic parameters from an institutional and environmental action perspective. In addition, GET2.1 would include a set of specific indicators defined at the level of each thematic area providing a high level of granularity of information on the implementation of GET2.1. This set of indicators is indicatively provided in section 3.7.

2.3 Alignment with the Paris Agreement goals

2.3.1 The Paris Agreement[3]

The international community reached a landmark agreement at COP21 in December 2015 to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future. The Paris Agreement (PA) entered into force on 4 November 2016 and, to this date, 189 Parties have ratified it out of 197 Parties to the United Nations Framework Convention on Climate Change ("UNFCCC").

All EBRD countries of operations have signed and joined the PA by ratification, acceptance, approval or accession, except Kosovo which is not a Party to the UNFCCC, and Turkey which has signed but not ratified.

The PA's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise in this century to well below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase further to 1.5°C (art. 2.1(a) of the PA). Additionally, the agreement aims to increase the ability of countries to deal with the impacts of climate change, and at "*making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development*" (art. 2.1(c)).

The PA requires all Parties to put forward their best efforts through **'nationally determined contributions' (NDCs)**, and to strengthen these efforts in the years ahead in the light of different national circumstances and respective capabilities and *"taking into account the imperatives of a **just transition** of the workforce […] in accordance with nationally defined development priorities"*.

2.3.2 The PA alignment process of the Multilateral Development Banks

The MDBs jointly stated their support to the PA at COP 21 where they committed "*to substantially increase climate investments*". At the One Planet Summit in 2017 in Paris, the MDBs, together with the International Development Finance Club ("IDFCs"), announced their intention to align their financial flows to support the PA objectives, and to develop together approaches to aligning with the PA.

[3] This section contains references and excerpts from the UNFCCC website. More information on the Paris Agreement and on the UNFCCC governance and processes are available at https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

To implement these commitments building on over a decade of increasing cooperation on climate action, the MDBs issued a joint statement the following year including the formulation of their approach to alignment with the objectives of the PA. The conceptual framework of this approach was presented at COP24 in Katowice in December 2018 and covers six operational areas of work of the MDBs: (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) enhanced reporting; and (vi) alignment of internal activities.

Based on support from a range of shareholders and calls for further ambition, including from the Coalition of Finance Ministers for Climate Action[4], the MDBs made a joint high-level statement[5] at the 2019 UN Secretary-General Climate Action Summit. The statement includes a commitment to increase climate finance levels and private sector mobilisation, and to help clients develop long-term low carbon and climate resilient strategies that grow in ambition over time, while taking just transition into consideration. The MDBs also committed to develop a new transparency framework to report on both the impact of each MDB's activities and how these are helping clients meet and exceed their climate commitments.

The main aim of the MDBs' joint PA alignment approach presented at COP25 in Madrid is to provide a practical operational framework supporting MDBs to understand climate related risks and opportunities, reflect climate change considerations into their activities and inform policy engagements, sector/country strategies, business development and investment decisions. In addition, while allowing each MDB to take into account its own mandate and capacity, it is designed to ensure consistency and comparability, facilitate cooperation and coordination, improve transparency and disclosure and maximise impact. This is important in the context of parallel developments among DFIs (e.g., AFD has a policy on alignment with the Paris Agreement in place since 2017 and the FMO, at the start of 2017, announced a plan to align its portfolio with a pathway to limit global warming to 1.5 °C) and, increasingly, in the private sector. For example, the Institutional Investors Group on Climate Change (IIGCC)[6] is currently developing a dedicated methodology to track financial assets for alignment with the Paris Agreement. The EIB announced in 2019 its commitment to align all financing activities with the goals of the Paris Agreement from the end of 2020.

The MDBs have set up an on-going work programme to define common principles, criteria and tools underpinning each operational area and introduce in time the necessary adjustments to reflect evolving scientific evidence about climate change, technology innovation and the intersections with other SDGs. The scope of the PA goes beyond the temperature goals as it aims at ensuring climate resilience and sustainable development.

2.3.3 Relevance for the EBRD

The objectives and the principles of the PA are fully consistent with the environmental mandate of the EBRD as set out in the AEB. In line with its transition goals, the Bank can play an important role in supporting its COOs achieve their PA commitments through the development of the necessary institutional and policy arrangements and by facilitating market responses and investments.

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4 https://www.cape4financeministry.org/

5 https://www.ebrd.com/news/2019/-mdbs-pledge-to-join-forces-to-raise-annual-climate-finance-to-175-bn-by-2025.html

6 IIGCC is the European membership body for investor collaboration on climate change. It has more than 230 members, mainly pension funds and asset managers, across 15 countries, with over €30 trillion in assets under management.

This is particularly relevant considering: (i) the extent of the exposure of the EBRD region to climate vulnerabilities and related risks, both systemic and at project level; (ii) the significant set of opportunities associated with the transition to low-carbon and climate resilient development pathways in the EBRD region; and (iii) the potential of most of the region to attract climate finance flows, also in the context of the flexible mechanisms contemplated by the PA[7].

Within its mandate and operational model, the Bank has the experience and instruments to:

- support countries develop the necessary institutional capacity to design and implement the strategies, policies and initiatives underpinning low-GHG and climate resilient development in line with other SDGs and taking into account local circumstances, for instance by supporting the development of more ambitious and comprehensive NDCs and LTS that are based on long-term scenarios and just transition considerations;
- support financial institutions and businesses implementing investments and developing business practices and commercial models that mitigate climate risks; and
- mobilise private sector finance (including through capital markets) and international climate finance to scale-up investments and accelerate market transformation.

The scope of the PA goes beyond the temperature goal as it aims at ensuring climate resilience and sustainable development.

2.3.4 Operational implications

The gradual alignment of the EBRD operations with the goals of the PA will be an important work stream in GET2.1. The joint approach developed by the MDBs will provide the operational framework for the Bank to design specific tools, methodologies and systems in line with its mandate and institutional priorities and reflecting the primary focus of alignment of the Bank's own financial flows. PA alignment will be a dynamic process, requiring regular review to reflect evolving climate change science, technological developments, and changing policy environment and business conditions.

In the context of EBRD operations, PA alignment entails that, in time, the Bank will:

- **Screen all investments for alignment with PA and national climate-related action plans**, taking into consideration the priorities set in country and sector strategies. This will be undertaken through a variety of tools and approaches that will help forming a view on the consistency of each project with the goals of the PA. In addition, particularly in countries and regions characterised by high physical climate risks, the analysis will cover climate vulnerability at project level and the inclusion of appropriate measures to improve the adaptive capacity of infrastructures and businesses.
- **Increase its capacity to support countries, regions and sectors developing low-GHG, and climate resilience strategies,** especially through the instruments included in the PA i.e. NDCs, LTS[8] and voluntary cooperative approaches.

[7] Art. 6 of the Paris Agreement, which defines the framework to facilitate Parties "*to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity*."

[8] Art. 4 of the Paris Agreement.

- **Scale up its efforts to mobilise climate finance** through its resources and through co-financing, particularly from private sector investors and financiers.

The development and implementation of related tools, procedures and specific initiatives are carried out by a dedicated cross-departmental technical working group, which coordinates this work and ensures consistency with the joint-MDBs approach.

Acknowledging the intent of most shareholders, the Bank will work towards full alignment with the Paris Agreement, on which a decision will be taken no later than 2022, taking into account the lessons learned from the initial phase. The timeline for implementation of the alignment methodology is as follows:

- 2020: pilot testing of the methodology for selected projects in energy, transport and heavy industry;
- 2021: application of the methodology with screening of all new direct finance projects, with notification provided to all projects going to Board indicatively targeted from Q2 2021;
- Building on the experience gained from the initial phase, from 2022:
    - application of the methodology to all projects, including indirect financing through intermediaries;
    - internal reporting on alignment based on MDBs Paris Alignment disclosure framework;
    - annual reporting to Board; and
    - external reporting in line with first internal progress report.

As reflected in the above timeline, the Bank needs a period of time to fully develop and implement the methodology. Following the full roll-out of the methodology, the Bank will be well-positioned to identify the precise implications from the application of this methodology on the basis of real project situations. In particular, it will be relevant to assess how the pursuit of a full PA alignment could affect the development of operations across the full range of EBRD transition qualities.

While the Bank will not undertake a retroactive review of the alignment of its current portfolio with the PA goals, Risk Management is developing a methodology to review climate risks in the portfolio on an on-going basis covering both transition and physical. A pilot in selected countries is expected to be completed in 2020 with an application to the Bank-wide portfolio in 2021.

A number of operational arrangements and practices within the Bank are already aligned with the PA goals and consistent with the joint-MDBs approach. These include, for instance, the carbon neutrality policy of the Bank[9] and the climate finance activities supported by GET1.0. Other activities have already been initiated in the context of the cooperation with the MDBs such as the definition of joint principles for just transition.

2.4 GET 2.1 policy approach

EBRD policy work under the SEI, SRI and GET approaches showed the **importance of policy to develop markets, facilitate private sector participation and generate investment**

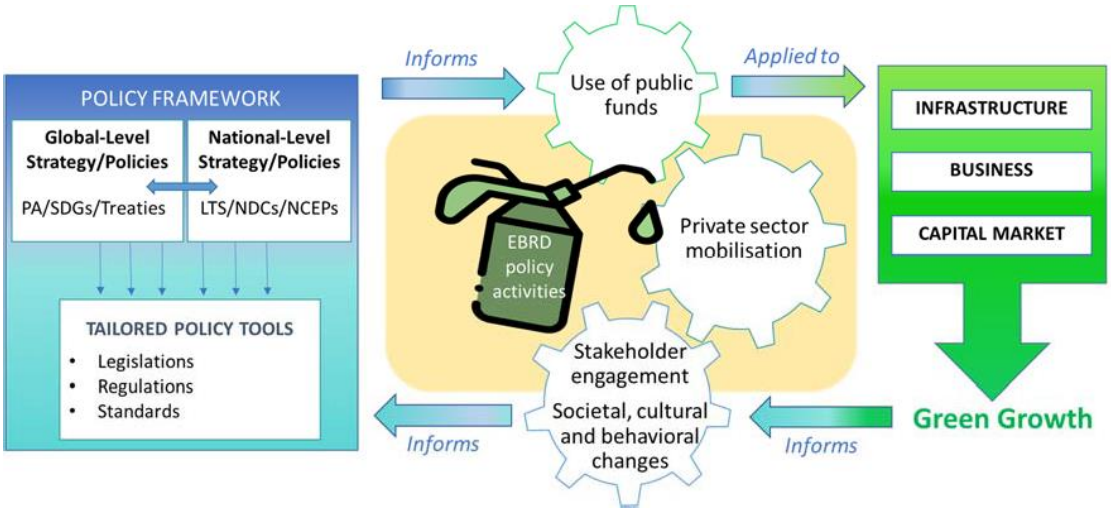
[9] In relation to the GHG footprint of the Bank internal operations including staff travel and EBRD buildings and premises.

opportunities. Experience during GET 1.0 has demonstrated the potential of this model not only to drive investments at scale (such as renewable energy auctioning schemes) but also to influence cross-sectoral market responses (such as industrial low-carbon pathways) and to define green strategies (as is the case in the Green Cities Programme). Policy work to date has also emphasised the importance of political economy dynamics in creating or blocking opportunities for effective policy work. As mentioned in section A1.1.2 and A1.2, while most COOs are signatories to a range of environmental treaties and agreements, the pace of implementation varies significantly reflecting local conditions and policy priorities.

The GET2.1 policy approach builds on GET1.0 seeking to integrate a l**ong-term perspective formulated through broad stakeholder engagement with a clear definition of objectives and intermediate milestones**, in line with SDGs and consistent with broader climate and sustainability goals. In addition, the GET 2.1 policy approach should take into account system-wide impacts and the broader socio-economic situation, emphasising client ownership within a robust framework of accountability and implementation arrangements[10]. Policies with these features can drive transformative system impact and provide strong signals for finance to flow into sustainable investments (see section 3.2 on mobilisation). The articulation of GET2.1 policies with economic recovery policies will provide further opportunities to accelerate the transition to a green low carbon economy in COOs.

The EBRD has an important role to play in this context, not only in facilitating the links between policy formulation and green investments but in using its experience and convening power to promote transformative green policies based on close collaboration and broad engagement of stakeholders with the required expertise (see section 5.4 on partnerships). The Bank can effectively deploy capital, including concessional funds, providing coherent market signals to investors in areas where signals are weak. The combined use of these funds, collective knowledge and expertise can mobilise the private sector, influence market dynamics and inform investment decisions, contributing towards systemic change and green growth as shown on Figure 2.4.1.

Figure 2.4.1: GET2.1 systemic green policy framework



The GET 2.1 policy approach highlights policy deliverables according to their **potential to trigger market transformation** and result in systemic changes. In particular, it reflects the use of long-term strategies and policies that have significant potential to drive systemic impact.

[10] including the clear identification of responsible authorities and implementing agencies and the definition undertakings from market participants (e.g. in relation to reporting requirements).

These strategies and policies set the critical overarching sustainability and climate change objectives at country and sector levels. The Bank should also continue to identify specific opportunities that emerge in its COOs in the context of its project work and relationship with governments and clients. Attention will be provided to support COOs in developing policy and regulatory frameworks that ensure fair and undistorted trade and investment in the sector, as well as respect of international commitments.

The formulation of policies at individual COO level takes into account local conditions and include consideration of international climate and environmental conventions and treaties to which each country is a party. The Bank will continue to consider the readiness of individual countries and their specific circumstances, including the social and economic impact of the pandemic. These include long-term low-carbon and climate resilient strategies (LTS) and other national environmental plans including Nationally Determined Contributions (NDCs). Together with other organisations including other MDBs, the EBRD will contribute to the strengthening of national mid- and long-term climate and sustainability goals in LTSs, NDCs and related policy documents including implementation plans. The EBRD has already set in place an NDC Support Programme to support COOs to develop, improve and implement their NDCs. This work builds up on the experience with national plans for energy efficiency and renewable energy[11].

Support to country LTS, NDC and other national environmental plans provides strong and valuable opportunities for partnerships involving country authorities, MDBs and specialised technical entities. The range of areas to be covered and the range of competencies required imply that only well coordinated support at country level can provide an effective contribution. The Bank is already operating in this collaborative manner in the context of existing initiatives, such as the NDC Partnership. Reflecting its mandate, operating model and resulting experience, the Bank can contribute its specific competence in areas such as private sector engagement, market instruments mobilising the private sector, carbon markets development and city level green delivery models. Conversely, the Bank will benefit from the involvement of other MDBs and specialised organisations such as the IMF, the IEA or the OECD in areas where it does not have a specific competence but which can have a significant impact in expanding green finance opportunities. Furthermore, MDB collaboration on LTS and NDCs is already part of the joint MDBs PA alignment approach. As the Bank develops this activity, it will be increasingly reflected in its country strategies ensuring that LTS and national environmental plans such as NDCs are considered in the overall formulation of priorities and objectives.

In sectors that are not governed by the NDCs (such as shipping and aviation, or that are affected by global market forces such as steel and fertilisers) the Bank will support the formulation of **low carbon sectoral pathways** consistent with long-term decarbonisation goals. These pathways help to ensure alignment among market players, to define investment requirements based on expected technology developments and to indicate the policies to enable these investments. These activities require **close cooperation based on strong partnerships**. The EBRD is currently working with the IEA on developing global decarbonisation pathways for the fertiliser and steel industries. During GET1.0, the Bank has already supported Egypt and Kazakhstan to develop low-carbon pathways for the cement sector, as well as currently supporting Uzbekistan to develop its low-carbon pathway for the energy sector.

[11] Turkey, Georgia, Albania and Belarus (on-going).

A significant area of potential systemic policy impact is related to the **greening of the financial system** which can have a particular impact in scaling-up environmentally sustainable private finance. There is growing awareness amongst financial markets, regulators and policymakers of the systemic threat that climate change poses to economic activity across all sectors and all geographies. Central banks and financial supervisors in particular have identified this as a potentially major source of financial instability and are beginning to set expectations on how financial and non-financial firms should assess and manage climate-related risks in their portfolios and operations as set out for example by the Task Force for Climate-related Financial Disclosures (TCFD) and by the Network for Greening the Financial System (NGFS). While consideration of recommendations from the above work has started in certain COOs, there is still a significant gap, which the Bank can contribute to address through policy advice, technical engagement and financial support for financial and non-financial firms.

Progress in mainstreaming climate change considerations into financial supervision and the functioning of financial markets includes the assessment, management and disclosure of climate-related risks and opportunities by both financial and non-financial firms alike. The EU has launched a comprehensive and ambitious policy framework for orienting the EU financial system towards low-carbon and climate-resilient sustainable development, in the form of the European Green Deal and the Sustainable Finance Action Plan under the Capital Markets Union. Under these initiatives, the European Central Bank and the European Supervisory Authorities (ESAs) are rolling out strategies for mainstreaming climate and other sustainability issues, including disclosure requirements, into their supervisory activities. Despite the existence of this common policy and supervisory framework, the gap between non-emerging and emerging EU markets in terms of market awareness and activity on sustainable finance including the lower familiarity of firms with disclosure practices poses particular challenges for its effective implementation in the emerging EU.

A potential strategic response to support COOs in addressing these challenges could be a "Green Vienna Initiative" in which EBRD could partner with the EC, ECB and ESAs and other relevant players such as EIB and IMF. Driven by COO interest and demand, this initiative could deliver a strategic package of targeted policy advice, technical cooperation and financial support covering financial sector policymakers and supervisors as well as financial firms and local capital markets, to support the emerging EU financial system to participate fully in this shift towards sustainability. This could bring benefits over time to COOs outside the EU building on the experience emerging from this initiative.

The Bank will also provide capacity building and policy support to promote the development and implementation of **domestic and international carbon markets** and other crediting mechanisms. Carbon pricing schemes and other market based instruments introducing price signals for environmental externalities (e.g. green certificates, water certificates) have demonstrated the potential to trigger economy wide (e.g. EU ETS) and sectoral (e.g. CORSIA scheme for the global aviation sector) systemic effects. The EBRD has been piloting this approach in SEMED through the Integrated Carbon Programme for the Southern and Eastern Mediterranean region (ICP). In these areas of GET2.1 delivery, the Bank will work in close co-operation with partners such as the joint MDB working group on Article 6, the World Bank-led Partnership on Market Implementation, the International Carbon Action Partnership (ICAP), the IEA and private sector organisations like the International Emissions Trading Association (IETA).

Local capital markets can play a crucial role in enabling the green transition by allocating capital where it is most needed for long-term sustainable growth. This is particularly relevant

because the majority of green projects only generate local currency revenues. However, the EBRD region is at varying stages of green capital market development, and capital markets in the region do not always reflect sustainability considerations. For example, while some European countries, such as Estonia, Latvia and Poland, have seen some major green bond issuances, such markets are almost non-existent in other COOs. Similarly, although stock exchanges in the more advanced transition COOs, including the Warsaw Stock Exchange and Borsa Istanbul now provide ESG-related equity indices, such information is hardly available in other jurisdictions.

In order to support an environmentally and socially sustainable economic system in the EBRD region, as well as reorienting capital flows towards sustainable investment, the Bank will support capital markets to play their role in greening the financial system. This will entail helping to create the right conditions for sustainable firms to access capital market financing, and for ESG investors to access to green bonds and green equity. In pursuit of this goal, the Bank will cooperate with relevant initiatives such as the UN Sustainable Stock Exchange initiative.

At local level, **cities are significant GHG emitters and essential actors for accelerated climate and sustainability action**. Work at city level will be prioritised reflecting the potential contribution of activities in this sector to the green, inclusive and resilient transition qualities including support to connect local climate policies with national goals. Under EBRD Green Cities, the Bank also assists municipalities in the development of Green City Action Plans (GCAPs), with several already adopted and being implemented.

Legislation, regulations and standards which set legal accountability and provide the ground for enforcement across players in the market are required to support the effective implementation of strategies and policies. In addition, effective systemic policy action requires that sufficient attention be paid to **monitoring, verification and enforcement (MVE)** of policies. Such MVE is needed to close the policy cycle ensuring that policy is followed by effective implementation. The skills developed by the Bank will allow to support its COOs to deploy the legislative, regulatory and MVE tools needed to achieve their policy goals. The Legal Transition Team in OGC is well placed to support the Bank's further engagement on corporate climate governance both in relation to policy dialogue and client work.

Green policy priorities should be reflected both in Country and Sector Strategies and Policy Priority Objectives set annually. Furthermore GET2.1 policy work will also be integrated in the annual policy agenda definition process with the close involvement of country teams. The EBRD Resident Offices (ROs) will play a key role in helping setting the priorities for GET2.1 policy work across COOs. RO staff can leverage their understanding of the local context and network of contacts to help shape the policy intervention in their respective countries. They can also help strengthen and further leverage partnerships with local stakeholders (government, private sector, NGOs and academia). The GET Ambassadors Network established in 2019 and sector economists in ROs play an important role to strengthen green policy engagement in COOs.

2.5 Green Transition Acceleration: Thematic Areas

This section outlines the rationale for an operational approach structured around a set of specific thematic intervention areas (2.5.1), describes in summary form each area (2.5.2), examines the relevance and opportunity of each thematic area across the EBRD regions of operations (2.5.3) and highlights the contribution of specific thematic intervention areas to a

post COVID-19 green economic recovery (2.5.4). The formulation of the thematic areas is intended to ensure that GET2.1 addresses both climate mitigation and adaptation, as well as other important environmental issues confronting the COOs (see section 2.5.3).

2.5.1 Thematic Areas Rationale

The rationale for the definition of GET2.1 thematic areas is based on the achievement of the following three objectives:

- to define a set of specific **focus areas** reflecting priority areas of opportunity in the EBRD regions, Bank experience and fit with its operating model;
- to **scale-up activity** within each of these focus areas supporting an ambitious target set out is section 4.8; and
- to **drive innovation** in each of these focus areas in terms of financing and policy product, and technology.

The development of specific thematic areas will generate a range of benefits including:

- the ability to develop **specific products** responding to opportunities and challenges faced by clients. This will support the **business development** activity of the Bank within each thematic area;
- the **structuring of policy and operational activity** in the context of the dialogue and relationship with governments;
- encouraging **cross-sectoral collaboration** in areas benefitting from the articulation of several areas of expertise such as water infrastructure and agribusiness, public and private partnerships in urban regeneration or digitalisation, circular economy and smart cities;
- enhancing the ability of the Bank to discuss **collaboration and funding** opportunities reflecting the priorities and interests of individual donors;
- allowing the Bank to strengthen specific **technical skills** supporting the development of individual thematic areas. This is particularly important to drive **innovation**;
- the establishment of **external partnerships** supporting knowledge sharing and collaboration;
- the definition of a specific **results frame** providing a granularity of understanding of results achieved within each area; and
- making **communication** more effective enhancing the **visibility** of the Bank's work in each thematic area.

The focus on specific thematic areas provides the base for the scaling-up of operational activity and technological and product innovation, two key GET2.1 strategic development parameters. The alignment of resources and skills around clearly defined action themes will contribute to enhanced effectiveness and efficiency through focused business development, product deployment and the build-up of specialised operational experience. These results have already been observed in the case of energy efficiency and renewable energy where focused action has resulted in increased delivery. While it is expected that the bulk of GET2.1 activity will be carried out as part of these thematic areas, individual projects meeting the GET eligibility criteria will also be pursued. This could occur for individual opportunities in a narrow technical area or as a result of innovation generating opportunities not envisaged at this stage. The latter could be happening towards the second half of the GET2.1 implementation period.

Focused thematic areas are also an important element in driving and delivering innovation. Previous experience with SEI, SRI and GET1.0 clearly shows that concentration of resources and attention on specific product innovation requires a focus of skills and resources over a sufficient period of time. External funds have in many cases been instrumental in providing the opportunity and possibility to develop, test and roll out innovative products given internal resource constraints.

2.5.2 Green Transition Acceleration Thematic Areas: Summary

The selection of thematic areas reflects an assessment of key environmental action areas and their relevance to the regions of operations of the Bank, taking account of its mandate, operating model and expertise (see section 2.5.3). On the basis of this assessment, ten thematic intervention areas have been developed as part of GET 2.1 including two cross-cutting areas which are described in summary form in the remainder of this section. Each of these thematic areas corresponds to a specific green transition acceleration opportunity area with a defined set of counterparts in the private and public sectors. In line with the **private sector focus** of the Bank, several thematic areas involve mostly private sector counterparts. This will contribute to achieving a meaningful private sector share of GET finance.

Particular attention has been placed to ensure that the formulation of these thematic areas cover not only key climate related issues but also **important environmental challenges** which may not be directly related to climate. Accordingly: (i) the natural capital thematic area covers the sustainable management of natural capital focusing on water including marine resources), soil and ecosystems; (ii) the cities and environmental infrastructure thematic area addresses issues of air pollution, water supply, and solid waste and wastewater management; (iii) the sustainable food systems thematic area addressing land and water issues in agriculture, as well as biodiversity; (iv) the green building thematic area including important health benefits related, for example, to the rehabilitation of buildings; (v) the sustainable connectivity thematic area having a significant potential to reduce air pollution through the electrification of transport systems; (vi) the industrial decarbonisation area providing opportunities for circular economy policies and investment opportunities; and (vii) other thematic areas with the potential to support non-climate environmental action, for example through intermediated green finance facilities.

Energy Efficiency. Primary energy intensity per unit of GDP remains high in a number of COOs including Belarus, Kazakhstan, Moldova, Ukraine and Uzbekistan and well above world averages. This materialises into a large remaining market potential for energy efficiency in buildings, industry, and electricity transmission and distribution.

While providing a key opportunity to reduce emissions in the short and medium term, energy efficiency financing and deployment remain significantly below their potential. This cross-cutting thematic area will build on the experience and established capacity of the Bank to overcome market barriers through both direct and intermediated finance combined with policy and technical assistance as an integrated approach.

This thematic area will pursue policy activities promoting the development of a broad energy efficiency approach including: long-term buildings renovation strategies, low-carbon pathways for hard-to-abate sectors such as cement and steel, tools for mobility energy efficiency. This will require innovative tools and finance including financial aggregation mechanisms, improved corporate climate governance and low-carbon pathways. The Bank will deploy proven products across selected platforms such as Green Economy Financing

Facility (GEFF), municipal investment in public energy efficiency projects, aggregation mechanism and direct lending. This thematic area will be mostly related to the green and competitive transition qualities.

Climate Adaptation and Resilience. The EBRD region contains some of the most climate-vulnerable countries in the world, in which physical climate change impacts pose material threats to economic activity and to the well-being of populations. Activities in this thematic area will contribute to address these challenges in two ways by: (i) supporting adaptation and resilience project components across other thematic areas involving for example water, the built environment and food production systems; and (ii) addressing these challenges in a systemic way, by supporting better availability of physical climate data/analytics, the integration of physical climate risk management and disclosure into investment planning and corporate governance, and strategic planning, and improving the awareness and capacity of policymakers on climate resilience.

Work in this thematic area will support policy activities to mainstream physical climate risk assessment into financial supervision, management and disclosure of physical climate-related risks, and the management of physical climate risk. This will aim at expanding the use of innovative mechanisms such as climate resilience bonds and policy tools to assess, manage, and disclose climate risks, as well as critical infrastructure climate resilience investment plans. This thematic area will involve activities promoting the green, resilient and well governed transition qualities.

Green Financial Systems. The development of green finance by financial institutions in the COOs has been meaningful with over 150 FIs supporting GET projects across the regions of operations of the Bank. However, there is still a significant scope to green the financial system and expand green financing by local financial institutions to drive sustainability and access funding from an investor base that is becoming increasingly focused on climate and green impact. At a global level, financial regulators, credit rating agencies, and capital markets are increasingly calling for greater disclosure and management of climate risks by financial institutions.

Building on results and experience to date, work in this thematic area will foster innovation by supporting individual clients to graduate from a green 'use of proceeds' model to a model better reflecting environmental risk and returns. This will include Bank support to clients to meet climate-risk disclosure through the adoption of: (i) corporate climate governance practices; (ii) financing policies adhering to minimum technical performance standards; and (iii) financial products such as green mortgages, low-carbon pathway loans or green, transition, and resilience bonds. This thematic area is expected to contribute to transition impact involving a broad range of qualities including green, competitive, inclusive, resilient and well governed.

Energy Systems. The power sector accounts for more than 45% of CO2 emissions globally, as well as in the EBRD COOs. While some COOs have developed their renewable energy resources over the past decade, most remain untapped. COOs face various challenges ranging from a high reliance on coal and aging power generation assets, to poor transmission and distribution networks with a low level of regional interconnections. COOs will need to ramp up the decarbonisation rate in the energy sector to deliver on both climate policy goals and growth objectives.

Work in this thematic area targets a systemic change shifting towards a decarbonised, pollution-free, and circular energy system aiming to: (i) increase low-carbon energy supply from renewable energy and low-carbon fuels such as hydrogen; (ii) natural gas as a transition fuel; (iii) promote sector coupling; and (iv) increase the resilience and flexibility of energy networks, including through the promotion of regional interconnections.

This transformation will be supported by a set of innovative policy dialogue activities focusing on the development of low-carbon pathways, on setting the regulatory and market conditions for renewable energy, decarbonised fuels, decentralised generation, and promoting climate resilience and corporate governance across the sector. Financing activities will focus on innovative renewable energy systems and low-carbon fuels transportation and storage, utility-scale storage and the upgrade of gas and hydrogen transportation infrastructure. Financing activities will also include the development of the hydrogen economy (production and supply-chain infrastructure) with new emerging technologies (e.g. electrolysis and pyrolysis) that will support the decarbonisation of energy intensive industries in clusters around fertilizers, chemicals, refineries and steel. Beyond green, activities in this thematic area can promote the resilient transition qualities.

Industrial Decarbonisation. The EBRD region is characterised by countries with diverse industrial bases including in many cases energy and material intensive processes. The rate of adoption of energy efficient technologies and practices remains behind comparable international markets, especially among SMEs. In general, circular business models are rare and regulatory systems supporting decarbonisation and circular economy are weak.

Work in this thematic area will support the development of national enabling frameworks for critical raw materials, the promotion of sustainable and circular products, the integration of industrial decarbonisation in national climate policies and just transition considerations. Specific policy products may include long-term contracts and the creation of a commercial and regulatory framework to encourage long-term power purchasing agreements (PPAs) from renewable sources and Industrial Demand Response (IDR) models.

Within this context, this thematic area will promote: (i) the accelerated adoption of advanced energy efficient technologies and practices; (ii) substantial investments in greenfield plants adopting new processes and using inputs with full decarbonisation potential; and (iii) the introduction of practices and models that facilitate the reprocessing and reuse of residues and by-products. Financing instruments may involve performance and results-based financing and risk sharing models. The main transition impacts related to this thematic area are expected to be green, competitive, and well-governed.

Sustainable Food Systems. Improved productivity and increasing agricultural commodity exports from COOs such as Kazakhstan, Romania and Ukraine can improve global food availability. However, land fragmentation (e.g. SEMED) and regulation (e.g. Egypt and Turkey), coupled with sub-optimal support systems, remain a constraint. Furthermore, the potential for improved processing and distribution is constrained by outdated systems with 30% to 40% of produce lost in post-production, due to weak infrastructure and supply chain logistics.

Work in this thematic area will support sustainable investments in food and agriculture, by deepening engagement with existing clients and establishing new business relationships in emerging areas of focus including: (i) value chains; (ii) food production; and (iii) agricultural land and water, while limiting production systems with detrimental effects on water and biodiversity.

Policy activities will support the deployment of sustainability standards for product certification to boost the resilience of food value chains. Innovation will be pursued in areas such as digitalisation, along the supply chain, traceability improvements (e.g. through blockchain technology), food waste precision agriculture, alternative proteins, seeds improvements and enhanced crop protection. The thematic area will rely on the broad range of EBRD financing products including working capital, non-sovereign and sovereign operations, and venture capital funds. Green, competitive and inclusive transition impacts are expected to be achieved through activities in this thematic area.

Natural Capital. Natural capital is defined as the goods and services provided by the natural environment. Within this thematic area the Bank will focus on three specific components: water, soil and ecosystems. These have vital implications in terms of long-term sustainability, the well-being of communities, and business operations. The EBRD region contains some of the world's most water-stressed countries. It also has large agri-business sectors, which all ultimately depend upon the quality and fertility of the region's soils. It is ecologically diverse with ecosystems providing a range of environmental services. However, many of these ecosystems are at risk.

The objective of this thematic area is to define needs and opportunities in relation to natural capital. It will also implement operations promoting the sustainable management of natural capital focusing on water, soil and ecosystems in line with the Bank's operating principles and business model. The thematic area will provide policy guidance for Bank operations in sectors relying heavily on natural ecosystems including on sustainable water use and on soil protection. Innovation will include integrating ecosystems into infrastructure investments, developing and disseminating operational business models for sustainable water use, financing instruments for improved soil management technologies, and supporting agribusiness clients to identify, understand and manage soil degradation and water scarcity risks along their value chains. Work in this thematic area will promote in particular the green and resilient transition qualities.

Cities and Environmental Infrastructure. Globally, cities account for three-quarters of the world's energy consumption. They are also highly vulnerable to the impacts of climate change and air pollution. Cities in the EBRD regions are diverse with both depopulating and rapidly growing cities. Many cities are constrained in their green transition due to insufficient investment in sustainable infrastructure including water, wastewater and waste management.

Activities in this thematic area will prioritise and scale up investments in low-carbon infrastructure systems, environmental services and resilience working with national, regional and city governments, utilities, private sector solution providers and civil society. Activities will seek innovative solutions supporting the integration of smart solutions for city environmental infrastructure investments, and will embed inclusion considerations by assessing the vulnerability of city residents to the transition to low-carbon solutions. This thematic area will involve the full range of financing instruments to meet client needs including non-sovereign and sovereign loans, intermediated finance, capital markets, guarantees, and blended finance. Activities in this thematic area can promote a broad range of transition qualities including green, inclusive, well governed and resilient.

Sustainable Connectivity. To support local businesses to access global and regional value chains, new infrastructure investments must take place, providing sustainable, low-carbon

and cost competitive transport systems. This thematic area will promote the decarbonisation and long-term sustainability of connectivity of passengers, goods and data in the EBRD region. It will focus on low-carbon and climate resilient transport infrastructure and modes for goods and passengers; on green mobility and logistics models; as well as digital infrastructure.

Policy engagement is a key enabler to accelerate sustainable connectivity, both physically and digitally. Accordingly the thematic area will support the definition of low-carbon and climate resilient roadmaps for the transport system, green logistics action plans, and green hydrogen at the national, regional and corridor levels. It will aim at developing country level e-mobility strategies, co-modality studies, and market-based instruments to encourage sustainable mobility. On the back of these policy activities, the thematic area will support the scaling-up of EBRD financing for transport networks and corridors, logistics centres, ports, as well as digital infrastructure and the broader digital ecosystem. It will also pursue new business opportunities in e-mobility, green logistics value chain and green hydrogen for freight. The thematic area will prioritise innovative solutions based on increased electrification and a shift to carbon free fuels in passenger transport, road freight, and shipping; as well as advanced digital services and blockchain.

Green Buildings. The buildings sector, including construction, is responsible for around 38% of energy consumption and 43% of GHG emissions in the EBRD region. Less than 0.3% of the existing building stock undergoes a deep retrofit each year and construction to near zero energy building standards is almost non-existent. Resulting building sector decarbonisation opportunities for renovation and new construction are consequently very high requiring a strong partnership between public and private sector in terms of both policy and investment.

Activities in this thematic area aim to accelerate the decarbonisation of buildings in the EBRD region including the adoption of low carbon materials, the construction process, operations and maintenance, and the responsible re-use and recycling of construction and demolition waste. To reduce building-related emissions, an accelerated rate of investment is required in: (i) low carbon and Near Zero Energy Buildings (NZEB); (ii) deep energy efficiency renovation; (iii) low-carbon materials; and (iv) low-carbon energy supply. The platform will promote innovation to scale up activity by using quick assessment software, a technology selector approach for technology screening, digitalisation (for example of building management systems), and innovative construction techniques. New activities will include utility intermediated residential renovation schemes, green mortgages, national renovation programmes, and energy efficiency funds. Work in this thematic area will primarily involve the green and inclusive transition qualities.

The thematic areas provide a solid base for action on important environmental dimensions. For example, in the case of air quality, the industry and cities thematic areas generate positive benefits with Green City Action Plans already including air quality benchmarks. The growth of renewable energy and the electrification of connectivity are also associated with air quality improvements. In the case of resource efficiency, the industry and green finance thematic areas provide effective vectors for impact.

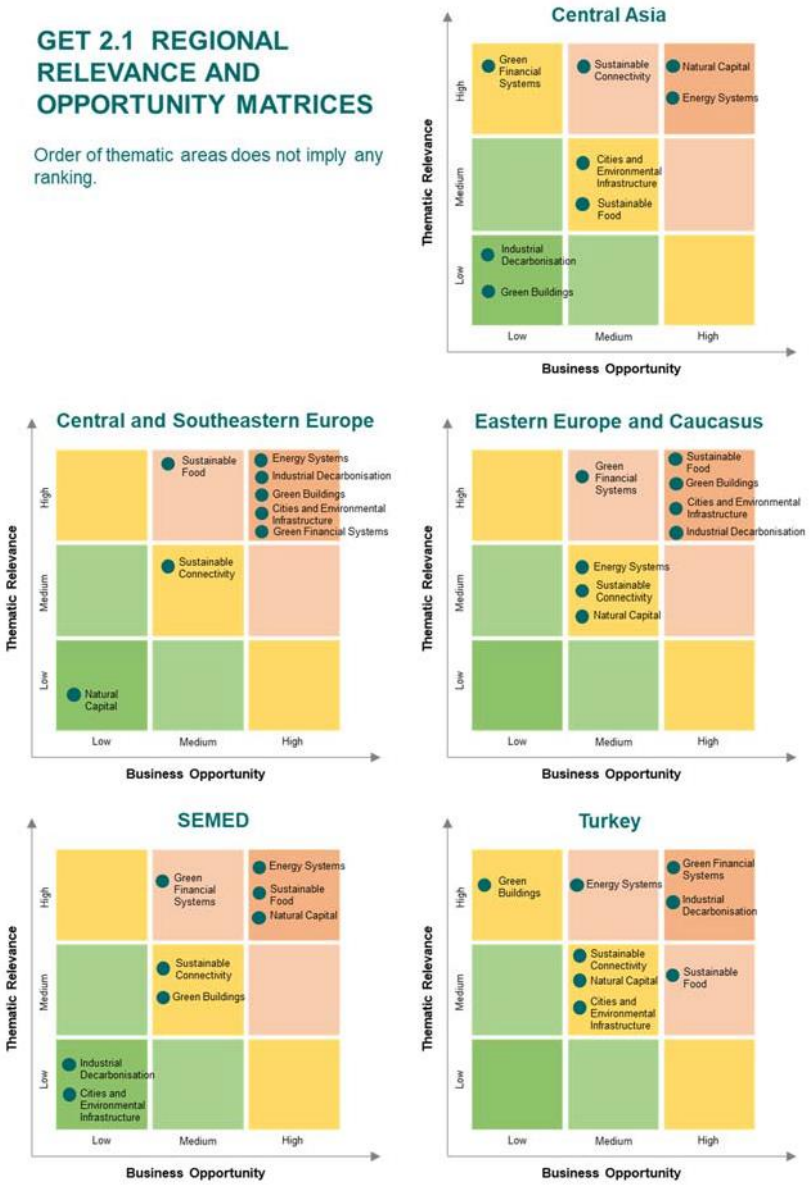
In terms of **implementation timeline**, the scaling-up of activities where the Bank has an established practice and experience will be directly determined by country conditions and internal and external resource availability. While the contribution of innovation will also depend on these factors, the timing of their impact on an increased GET ratio will depend on their readiness for deployment. Some innovations in GET2.1 already have a base of work done and could therefore be deployed faster. These include for example: just transition,

climate risk assessments and buildings energy efficiency. Other innovations will require an initial investment of time before full deployment including for example: support to the formulation of country long term strategies, the development of hydrogen and natural capital finance. In terms of the strengthening of internal processes, work is already proceeding in response to the findings by EvD and Internal Audit. Examples include data management and climate risk assessment. However the pace at which these improvements can be fully implemented will depend on the timely allocation of incremental resources for systems, data and people.

2.5.3 GET2.1 thematic areas: Regional assessment

This section examines the relevance and the transition business opportunities of the thematic areas across the EBRD regions of operations. The relevance of individual thematic areas has been assessed based on a set of indicators combined with a qualitative assessment based on knowledge of the local context benefitting from the input from the GET Ambassadors Network in the ROs. The opportunity dimension reflects the potential within each thematic area to engage in policy dialogue and generate GET project opportunities. Each thematic area is rated 'Low', 'Medium' or 'High' within each region as presented in Figure 2.5.1 and is mentioned in brackets in the regional sections below.

Figure 2.5.1: Thematic areas regional assessment



In **Central Asia**, priority GET2.1 thematic areas include Natural Capital, Sustainable Connectivity and Sustainable Food Systems. A number of crops and food systems will be increasingly exposed to physical climate risks, in particular in relation to water availability (e.g. in Uzbekistan with annual agricultural freshwater withdrawal exceeding by 40% available freshwater resources) and growing heat stress. At the same time, the region (e.g. Kazakhstan and Uzbekistan) has the potential to substantially increase its output of commodity crops and dairy and horticulture products. In addition, developing food systems along sustainability criteria can help shifting production towards higher value added products and help countries like Uzbekistan diversify away from crops like cotton, which are particularly exposed to climate risks. Critical conditions to the growth of the sector include the introduction of sustainable practices in water and soil management (Natural Capital), and the development of infrastructures such as enhanced, demand-driven water systems and faster and more efficient transport links, especially along the trade routes between China and Europe. Improved freight/passengers systems are also needed to reduce the carbon footprint of transport and in general to provide local enterprises better access to regional and global markets (Sustainable Connectivity). These areas of GET2.1 delivery can offer the scope for policy engagements e.g. in relation to water governance and the introduction of sustainability standards and certifications.

In the financial sector, the Bank will pursue the development of Green Economy Financing Facilities which remain a key instrument to reach out to SMEs. In policy terms, this can be complemented by a further engagement with institutions such as the Astana International Finance Centre (AIFC) to accelerate the development of local green financial systems. This engagement should be focused on the development of capital markets instruments (including on local currencies) supporting GET investments and on the integration of climate risk management in the business practices of local banks.

The Energy Systems thematic area will remain important in the context of country strategies including the continuing development of renewable energy sources, network loss reduction, and gasification. While there are relatively few large cities in Central Asia, activities under the Cities and Environmental thematic area has the potential to disseminate an efficient operational model providing cities improved capacity on planning and financing green investments and policies.

Because of multiple climate vulnerabilities in the region, with potentially disruptive effects on water, energy and transport infrastructures, GET2.1 will give a particular emphasis to climate adaptation finance and capacity building programmes, to improve adaptive and responsive measures with a focus on the most vulnerable countries and regions.

Central and South Eastern Europe. This region covers EU COOs from both Central and South East Europe (including Greece and Cyprus), as well as the Western Balkans, reflecting the coverage of the current regional business group. While Western Balkans countries have EU membership aspirations, with Albania, Montenegro, North Macedonia and Serbia in the accession process, they are not legally bound by all EU targets as are neighbouring EU markets.

With the acceleration of green policy and regulatory environment in the EU, and the expectation these will be replicated in the Western Balkans, a number of thematic areas have a 'High' relevance with some variations. The European Green Deal, and its supporting instruments especially the EU Sustainable Finance Initiative, introduce the policy and economic incentives underpinning the green low-carbon transition in the region, including in the Western Balkans economies which are deeply integrated with the EU including the prospects of the Western Balkans Green Deal.

The Bank can play a critical role in supporting this transition through its financial and policy engagement products focusing on:

- Leverage the financial sector to support SMEs incorporating advanced sustainability practices and by expanding its range of products to include dedicated financial instruments such as sustainability loans, green leasing and green factoring. In parallel, scale-up deployment of capital markets instruments such as green and sustainability bonds (Green Financial Systems). There is a clear sequencing of engagements with more advanced capital markets products being the target for the Bank in EU COOs, and loans through financial sector intermediaries the starting point in the Western Balkans.
- Accelerated decarbonisation of the industrial sector through innovative, low-carbon technologies and processes, and in particular, electricity based processes and low-carbon fuels/feedstocks. Step-up the financing of circular economy investments and business models (Industrial Decarbonisation).
- Support the introduction of integrated, demand-responsive electricity networks that can accelerate the integration of renewable energy capacity (incl. modern energy storage and

gas as a transition fuel to renewables) and the electrification of the economies in the region (incl. electrification of transport). Opportunities for linking the early retirement of high-carbon power generation assets with just transition instruments will be actively explored, for example in Greece (Energy Systems).

- As buildings represent a high share of final energy use, the Bank needs to focus on investments in low-carbon buildings in line with existing and forthcoming EU requirements and standards. At the same time, provide capacity building and finance to support the implementation of long-term renovation strategies. Integrated intermediated financial instruments (e.g. dedicated funds providing finance to local banks, municipalities and real estate developers, as well as promotion of Energy Performance Contracts) could be deployed to provide finance at scale to decarbonise the sector and provide an economic stimulus for new jobs starting in EU markets and with experience, in the Western Balkans (Green Buildings).
- Support cities decarbonising and improve efficiency of municipal utilities (incl. energy efficiency of public buildings, e-mobility, smart cities and electrification of urban transport) promoting innovation through the Green Cities Programme (Cities and Environmental Infrastructure).

While at a lower level of priority, GET2.1 will also support increased sustainability of food systems through the application of advanced standards for energy and material efficiency along value chains and help the modernisation of transport and digital infrastructures (Sustainable Food Systems and Sustainable Connectivity). The Bank will work on the development in the region of service-based logistics and promote the adoption of digital technologies required to speed-up the growth of sustainable businesses (e.g. digital services for farming and circular economy).

The Bank will promote the deployment of sound nature based solutions (NBS) (Natural Capital) such as the Orbital Forest in Tirana to reduce flooding and improve liveability of the city centre. Opportunities to introduce specific technologies and systems are particularly relevant in the Western Balkans where NBS can provide cost-effective and sustainable alternative for flood protection and remediation/reconversion of contaminated sites. This is particularly relevant in countries like Serbia which suffered in 2014 the worst flooding ever recorded in the country with total damages (including private production plants and public infrastructure) amounting to over €1.5 billion.

Eastern Europe and Caucasus. Due to a dilapidated building stock in most countries, the potential for energy efficiency in buildings remains very high in all countries, despite progress in recent years in the growth of the market for energy efficiency technology and materials (Energy Efficiency and Green Buildings). This is particularly the case for Ukraine with constraints in the Caucasus due to limited sovereign capacity, particularly for public buildings energy efficiency. The Cities and Environmental Infrastructure thematic area is another priority in the region due to the modernisation needs of municipal infrastructure and services in most cities (for example for the provision of heating and public transport services). Actions under the European Green Deal would be of interest to most countries in this region and provide valuable support.

Beyond these three priority thematic areas, Energy Systems are important for the whole region, as the market share of renewable energy remains in general low apart from Georgia, where the share of renewables is around 85%. The Bank is supporting the development of the legal framework for renewable energy auctions in Armenia, Azerbaijan, Georgia, Moldova and Ukraine creating the potential for increased future investment. Rapid growth in the

introduction of energy efficiency processes and technologies is essential in manufacturing (especially in high-carbon industries in Belarus and Ukraine which have the most energy intensive economy across COOs) for the region to increase its competiveness in reaching premium markets requiring products with increasingly lower carbon and environmental footprint and to progress in its decarbonisation efforts (Industrial Decarbonisation).

The region in general is a net exporter of food products (with the exception of the Caucasus) with a significant potential for further growth in selected segments (e.g. organic farming) and productivity improvements, e.g. through the application of digital technologies and solutions (Sustainable Foods Systems). An additional area of attention in this thematic area will be the development of bioeconomy business models particularly through biomass supply chains based on agricultural and wood processing residues (e.g. straw in Ukraine and Belarus). Such supply chains can be initially linked to biomass based district heating systems or to energy supply to industrial plants and, in time, redirected towards higher value products such as biofuels, biomaterials and biochemicals.

The financial sector will remain key to provide finance at scale to support SMEs and buildings energy efficiency and to assist the growth of sustainable businesses. While scaling-up its GEFFs products, the Bank will also seek a broader engagement with selected financial institutions in the region to promote best practice in climate and sustainability risk management and contribute to gradually green the portfolios of partner banks. This is particularly relevant for a country like Ukraine where banks have already shown an interest to participate in the Climate Corporate Governance programme (Green Financial Systems).

The promotion of greener transport corridors, infrastructures and modes for both passengers and freight will be critical to reduce the carbon footprint of transport across the region, increase regional links and stimulate the green logistics business and build electric transport infrastructure (e.g. Belarus) (Sustainable Connectivity).

As climate risks become increasingly evident and their potential systemic effects in the economies more understood, the Bank will increase its focus on adaptation projects in the region and step-up its capacity to support countries develop long-term decarbonisation and climate resilient strategies including in the context of the NDC revision cycle (Ukraine).

The region has a significant potential (including due to availability of dedicated skills and R&D resources, e.g. Ukraine and Belarus) for a fast integration of digital solutions required by innovative green enterprises. For example, digitalisation can help address the problem of land degradation, which is a major issue as noted in section A1.1.1.

SEMED. Priority thematic areas for SEMED include Energy Systems, Sustainable Food Systems and Natural Capital.

As unit costs decline (particularly for solar PV), renewable energy technologies provide cost-effective decarbonisation solutions for energy supply and the opportunity for the region to become a regional hub for low-carbon fuels (e.g. hydrogen). The Bank will support developments in these sectors including through investments in grids and networks required for faster integration of renewable energy in the electricity systems, digitalisation and smart systems and private-to-private sales.

Improvements in Sustainable Food Systems are essential both in farming and along value chains (including logistics), to improve productivity and quality (e.g. precision agriculture in

Morocco and Tunisia), reduce food losses (Egypt) and mitigate the exposure to physical climate risks, particularly in relation to water stress. Increasing long-term resilience of water systems will be an area of priority of GET2.1 across the whole SEMED region in the following areas: (i) water efficiency technologies/practices (including demand side measures at municipal level); (ii) water infrastructure developments (e.g. renewable energy based desalination in Egypt) to shift away from unsustainable aquifer depletion; (iii) gradual shift of agriculture towards higher value crops with low-water intensity; and (iv) protection measures to reduce soil contamination and loss of nutrients. These priorities will be covered through the Climate Resilience and Natural Capital thematic areas.

Other important areas for SEMED include: (i) scale-up investments in green buildings with a focus on the use of sustainable materials and efficient cooling systems. This is relevant especially considering demographic trends in the region; (ii) improved connectivity systems which facilitate regional integration and decarbonise logistics (e.g. by improving efficiency through dry ports and investments in low-carbon transport modes such as shipping and rail); (iii) engaging with the financial sector to implement dedicated financial instruments (e.g. sustainability loans, green bonds) and internal governance and practices to improve climate risks management.

Opportunities in other areas will be pursued selectively in the municipal sector through the Cities and Environmental Infrastructure thematic area with the aim to decrease traffic congestion, improve air quality and urban mobility and increase energy and resource efficiencies, including support to the development of e-mobility and through aggregated approaches e.g. decarbonisation pathways developed with local industrial associations in high-carbon industries in Egypt and Morocco (Industrial Decarbonisation).

Turkey. The Green Financial Systems and Industrial Decarbonisation thematic areas are rated 'High' for both relevance and opportunity. In the Green Financial Systems thematic area, the close cooperation with banks like Garanti and TSKB and the success of the Green Energy Finance Facilities can be leveraged to deploy new financial products such as sustainability-linked loans. In terms of Industrial Decarbonisation, the National Energy Efficiency Action Plan (NEEAP) underlines the importance of energy efficiency in industry with defined targets. Furthermore, circular economy and waste minimisation have become an important element of the country's sustainability agenda. Going forward, the Bank can further build on its Near Zero Waste programme and strong portfolio of industrial energy efficiency projects to support Turkey in decarbonising its industrial sector. For Green Buildings, the NEEAP highlights the need for action in this area. The Urban Renovation Law and recent earthquakes are other developments confirming the relevance of this thematic area. The Sustainable Food Systems thematic area covers the agribusiness sector which has high potential for circular economy investments combined with a high level of awareness of the topic.

The relevance of the Energy Systems thematic area reflects the high generation capacity, high-energy demand and good potential for a transition away from fossil fuels towards renewables. While financing opportunities in renewable energy are hampered currently by local content requirements, the strong potential can be realised once the existing local content policy measures are removed. There is a clear need for investments in transmission and distribution infrastructure, as well as demand for further investments in the gas sector and renewables.

The Cities and Environmental Infrastructure, Natural Capital and Sustainable Connectivity thematic areas are rated 'medium' for both relevance and opportunity. For Cities and

Environmental Infrastructure, the 30 largest municipalities are required to submit climate change action plans to the Ministry of Environment. The Ministry is also actively promoting the Smart City concept that includes a green element. However, the high indebtedness of many municipalities and the lack of concessional financing are limiting factors in this area. Under National Capital, some municipalities are exploring projects on urban green spaces and flood management. There are also a number of regions undertaking afforestation efforts, in particular following the wildfires in 2019 in western Turkey.

Cross-Cutting thematic areas. Adaptation and energy efficiency are relevant to varying degrees to all thematic areas as shown on Table 2.5.1.

Table 2.5.1: Cross-cutting thematic areas matrix

	Cities Environmental Systems	Energy System Integration	Green Buildings	Green Financial Systems	Industrial Decarbonisation	Natural Capital	Sustainable Connectivity	Sustainable Food Systems
Energy Efficiency	High	Medium	High	High	High	Low	Medium	Medium
Climate Resilience	Medium	High	Medium	Medium	Medium	High	High	High

The Climate Adaptation and Resilience thematic area is particularly relevant for the most climate vulnerable countries in the EBRD region, in particular Central Asia and SEMED. As noted in section A1.1.1, the EBRD region includes some of the world's most water stressed countries. In a country like Uzbekistan, annual agricultural freshwater withdrawal exceeds available freshwater resources by around 40%. Urgent action is needed to improve water management and regulation to ensure the long-term sustainability of the agribusiness sector in the country. Beyond water issues, COOs face a range of physical climate risks requiring improved climate resilience measures across various sectors, including the energy and municipal sectors. Countries like Serbia are highly exposed to flooding risks suffering cumulative economic losses related to natural disasters of around USD 3 billion in the period between 2008 and 2018.

The Energy Efficiency thematic area remains highly relevant for economies with high overall energy consumption and energy intensity like Kazakhstan, Turkey and Ukraine. Turkey has large absolute energy consumption and high import dependency to meet its energy needs across a wide range of sectors, such as agriculture, buildings, energy and industry. Further energy efficiency improvements will have not only positive environmental effects, but also direct economic effects by reducing energy imports and improving the balance of payments. Ukraine has a highly energy intensive economy, particularly in the industrial sector, relying on fossil fuels with a significant potential for decarbonisation through energy efficiency measures. For countries like Kazakhstan, with abundant energy resources and a relatively energy intensive economy, this thematic area is particularly important as energy efficiency improvements will positively affect the competitiveness of its economy.

2.5.4 GET2.1 thematic areas and green economic recovery

As mentioned in section 2.1, GET2.1 provides the opportunity for the Bank to contribute in a practical manner to support a green recovery of its COOs both in the short term and medium

term. This section outlines specific green recovery actions which can be implemented through the thematic areas described in section 2.5.2.

Criteria for recovery activities in the short term include:

- direct contribution to employment generation;
- low capital expenditure;
- deployment readiness with rapid impact; and
- range of potential co-benefits.

From an operational perspective, short-term rescue and recovery activities should build on existing activities and programmes as has been the case with the TFP in the current short term COVID-19 crisis response. These can include 'tilt to green' measures such as channelling a share of emergency short-term liquidity to preserve green businesses and priorities, and defining green standards in the provision of financial support such as emission reduction targets, circular economy specification or climate related disclosures. As mentioned in section 2.1.2, it is also important to ensure that there is no policy reversal supporting a 'back to brown' shift.

Moving from the rescue to the recovery phase, the key parameters of a green recovery include environmentally sustainable activities with strong economic and social returns. With economic stimulus measures currently estimated at 3% of global GDP, there is an unique opportunity to pursue a sustainable development agenda with the impact of the stimulus becoming the key accelerator of the transition to a green low carbon resilient and inclusive transition. This would be underpinned by a 'build back better approach'.

While it is still early days, and the full impact of the COVID-19 crisis has not unfolded across the region of operations of the EBRD, the practical and timely definition of a green recovery option is a key determinant for its potential consideration, adoption and implementation by COO governments. In this context, the formulation of GET2.1 comes at the right time by proposing a range of specific policy and operational instruments to boost the green recovery of COOs. Green stimulus measures can indeed play an important role in the recovery phase with actions in renewable energy development, sustainable infrastructure, green buildings and sustainable tourism providing opportunities for both short and medium term employment opportunities.

The **Energy Efficiency, Green Buildings** and **Green Finance** thematic areas provide a broad range of opportunities in line with the above recovery criteria as the construction and technical services sectors can rapidly generate employment involving far-reaching value chains of small and large businesses. These would include the following actions:

- buildings energy efficiency including both residential and public buildings. This is a labour intensive activity with technologies ready to be deployed by a broad range of SMEs. Government programmes can accelerate the refurbishment of public buildings including schools, health facilities, public housing complexes and administrative buildings. Health co-benefits from such programmes are particularly relevant emerging from the COVID-19 crisis;

- channelling energy efficiency financing through the banking network of financial intermediaries established by the Bank over the last 15 years;
- use rapid deployment mechanisms such as the Technology Selector which specifies a list of high standard equipment eligible for financing; and
- support technology replacement and enhancement in SMEs including digitalisation supporting for effective energy management systems.

The energy efficiency expertise of the EBRD places it in a strong position to support its COOs in scaling-up these facilities and achieving quick benefits.

Reduced energy and carbon intensity in **industry** can be pursued both in the short and medium term through the accelerated deployment of, for example, digital process control technologies and waste heat recovery. Measures which enhance the resilience of business operations such as shorter supply chains, higher-energy-efficiency manufacturing and processing, and increased digitalisation of sales and marketing combine cost efficiency with digital transformation and will have particular value in the wake of the pandemic.

Activities in the **cities and environmental infrastructure** thematic area can contribute to a green recovery and to a strong impact across a range of transition qualities including green, but also resilient, inclusive and well governed. Through its Green Cities Action Plans, the Bank is already working with cities on priorities emerging from the COVID-19 crisis. Recovery activities can include both the promotion of light infrastructure projects such as bike lanes, pedestrian zones and street lighting with an important element going forward being the support to the digital component of activity. Programmes to reduce air pollution due to traffic, coal power generation and heating would bring important health benefits

COVID-19 has sharply put in relief the importance of **adaptation and resilience** including the handling of emergencies and disaster preparedness. The issue of resilience has surged from a business angle both in terms of supply chain reliability and of physical risks related to climate change. A green recovery provides the opportunity to invest in infrastructure, often of a public nature, to enhance the resilience of local populations to withstand the impacts of a changing climate.

While negative developments affected **renewable energy** at the height of the COVID-19 crisis including suspension of payments to operators and payment holidays for utilities, the case for renewables in the power sector is stronger than ever building on strong economic, environmental and energy security factors. The initial momentum for renewable energy development created in COOs with the direct support of the Bank provides a valuable base to pursue this key activity in the recovery phase accelerating the decarbonisation of the electricity sector.

The **sustainable food systems** provides the opportunity to both enhance the productivity and security of food production and reduce its environmental footprint while providing employment opportunities along the value chain. Together with the **natural capital** platform, it also provides the opportunity to develop employment in rural areas to improve water and soil management, to develop sustainable biomass residues value chains and promote reforestation. In the shorter term, sustainability linked blended finance loans can support agribusiness projects with environmental benefits.

The development of the **just transition** activities takes on further meaning in a post COVID-19 context by providing the opportunity to create a closer link between green policies and

social policies. This would support, for example, the diversification of the local economy creating new sustainable employment opportunities in the low carbon economy for communities at risk.

In the context of large economic recovery programmes, the **sustainable connectivity** thematic area can support the accelerated development of digital infrastructure and the electrification of the transport sector including the expansion of charging infrastructure and the deployment of electric vehicles, including cars and buses, and eventually trucks. The development of digitalisation in transport logistics and mobility as a service (MaaS) will also contribute to improved transport network efficiencies and reduced environmental impact.

COVID-19 has sharply demonstrated the rising importance of **digitalisation** to confront crisis situations. The focus in GET2.1 on developing green digital solutions will contribute to enhance resilience at national and local level.

Beyond investment, the recovery phase provides significant opportunities to accelerate the transition to a green low carbon economy from a **policy** perspective. In particular, the decline in oil prices provides a more favourable context to consider the removal of fossil fuel subsidies generating additional fiscal space to address priority recovery objectives. Similarly, it provides an easier context to introduce carbon pricing. The Bank can also contribute to accelerate a green recovery through measures greening the financial system both at national level and by assisting to channel at the request of its COOs best practices emerging at the international level from, for example, the Coalition of Finance Ministers, the EU Sustainable Finance Action Plan and NGFS.

3. GET 2.1 IMPLEMENTATION

3.1 GET 2.1 and transition impact

3.1.1 GET1.0 transition impact methodology

The Bank's GET approach is fully aligned with the Green transition quality. Indeed, projects that have GET eligible use of proceeds can use Green as a transition quality, subject to meeting specific thresholds. The six transition qualities were adopted in July 2017, and subsequently 278 projects (30.4% of the total signed) have used Green as either primary or secondary source of transition impact.

The thresholds vary from sector to sector, reflecting the different sectoral characteristics of GET finance and providing incentives to develop GET projects in "difficult" sectors, which are crucial to advance the green economy. For example, experience shows that it is easier to have high levels of GET finance in the energy sector than in other sectors such as property and tourism or agribusiness.

As currently formulated, the level of GET finance provides a base TI rating for a project and qualifies for the use of the Green quality. Higher TI rating is awarded for projects that demonstrate additional features that are valued from a transition impact perspective, such as complementary policy engagements, green innovation in technology, business models or management practices and the scale of the environmental benefits.

3.1.2 GET Direct Track

In addition to the standard approach to measuring transition impact of projects through the assessment of two qualities, a GET "Direct Track" (DT) rating approach was introduced with GET1.0. The DT requires projects to have only the Green transition quality. To qualify, projects must meet sector thresholds for GET eligible use of proceeds, which are higher than with the standard two-qualities based approach. The GET DT provides a simple, efficient and predictable rating approach for investments. As with the standard two-qualities based approach, the GET DT also gives a higher rating for projects with the desirable features of policy engagement, innovation or scale of physical environmental impact.

The DT has had the effect of attracting relatively straightforward green projects, such as renewables projects, whose main driver is climate/ environmental. The GET DT has been refined over time to target certain types of impactful green investments (e.g. GEFFs or green bonds in FI transactions).

Since the adoption of the new TI qualities in mid-2017, 72% of GET projects have used the Green quality for TI assessment. The DT option was selected by 10% of GET projects, with 62% using Green in a two qualities based rating. Moreover, the GET DT has fostered a more systemic approach with approximately 20% of GET DT projects receiving an uplift (e.g. an ETI score of 80 or 100).

3.1.3 GET 2.1 transition impact methodology

The experience gained in GET1.0 constitutes a good basis for the development of a rating approach to GET2.1.

The new GET2.1 structure is reliant on green transition acceleration thematic areas. As with the current GET approach, GET2.1 operational thematic areas will have a strong green TI focus, as their primary goal will be to deliver significant environmental benefits. But these thematic areas will also serve other purposes, for instance support the global competitiveness of key industries, enhancement of governance and inclusion practices, gender and inclusion, better integration (physical and digital) of geographical areas, resilience of energy systems and of the economy in general. Therefore, the two-qualities approach, where green is combined with another transition impact quality, remains appropriate.

Given the urgency and scale of the climate and environmental crisis, which has not declined since the release of GET1.0 in 2015, there will also be a place for a focussed TI rating methodology for GET2.1 based on GET DT approach. The approach will be updated (e.g. minimum thresholds that determine eligibility) to reflect the experience gained after applying it over the last 5 years.

Since the introduction of GET1.0, the Bank has also implemented an approach for assessing the economic impact of the projects with high greenhouse gas emissions, which incorporates shadow carbon pricing. These assessments apply to all qualifying projects, irrespective of whether they represent GET finance and use Green as a TI quality or not.

Enhancers of the "green" transition quality in individual transactions or frameworks include:

- **Policy engagement:** Strategies, legislation, regulations and standards are a powerful tool to drive systemic change that goes beyond individual investments. In GET2.1 EBRD's work to support key stakeholders –normally public authorities- in developing and implementing meaningful policies will remain an additional source of TI.
- **Innovation:** Innovation in green technologies, products, processes and business models will dictate the speed and success of the green economy transition and thus are a key enhancer of investments and TI.
- **Scale of impact**: Size of the environmental impact continues to be an important factor to consider from a TI perspective. In GET 2.0, the existing approach will be maintained and periodically updated to reflect changes in the nature of EBRD projects.
- **Efficiency of impact:** EBRD projects are of varying sizes. As the scale of physical impact is typically seen in the largest investments, this enhancer seeks to recognise the merits of impactful smaller projects by recognising the cost effectiveness of the environment outcome achieved (e.g. lowest emissions abatement costs).

EPG regularly assesses and takes stock of whether the GET TI rating methodology is fit for purpose. Accordingly, it will make necessary updates to ensure a rigorous and efficient rating methodology taking account of the GET2.1 operational structure to determine how the economic assessment and areas of TI enhancement may be applied to operational thematic areas.

3.2 Financing approach

3.2.1 GET financing instruments

GET 1.0 projects are financed with a broad range of EBRD financing instruments including private direct and intermediated lending; public non-sovereign and sovereign loans; direct equity investments; investment in equity funds; risk sharing facilities and guarantees (i.e. green TFP). Reflecting the private sector orientation of the Bank, the main financing instruments for GET projects are private and public non-sovereign loans, which accounted for 59% and 11% of GET1.0 finance respectively between 2016 and 2019. GET finance through EBRD participations in client bond issuances increased by almost eight times and included innovative instruments such as the $68.5 million equity participation in the Amundi Planet Emerging Green One, a $1.4 billion green bond investment fund for emerging market countries alongside IFC and EIB.

Out of €15 billion GET finance signed between 2016 and 2019, €2 billion was associated with concessional cofinancing mobilised by EBRD. The balance consisted of around €9 billion provided on a non-sovereign market terms (to GET projects in the industrial, agribusiness and property sectors, as well as many small-scale projects reached via financial intermediaries in advanced transition countries) and €4 billion on sovereign basis. GET financing was supported by technical assistance, capacity building and policy dialogue activities addressing information, awareness, capacity, technology and policy-related market barriers.

GET activity is being developed in a context with significant market failures including in particular the lack of internalisation of environmental costs in prices. To address the resulting market barriers and risks, the Bank pursues a robust and targeted approach to the development and use of concessional blended finance (CBF) instruments. The design of concessional CBF instruments for climate action is regulated by the application of internal guidelines for the use of co-investment grants and donor co-financing. These are consistent with the DFI Enhanced Principles for Concessional Blended Finance[12], the OECD Blended Finance Principles[13], MDBs Harmonized Framework for Additionality in Private Sector Operations[14] and the G20 Principles for Crowding-in Private Sector Finance[15] (the 'Hamburg Principles').

Technical assistance, policy dialogue and non-reimbursable and reimbursable CBF elements have been used selectively and in connection with integrated approaches to target barriers and risks preventing the effective deployment and acceleration of low-carbon investments in the EBRD region. Examples of such integrated approaches blending concessional finance alongside EBRD direct or intermediated finance include the Green Economy Finance Facilities (https://ebrdgeff.com/); EBRD Green Cities (https://www.ebrdgreencities.com/); FINTECC (http://fintecc.ebrd.com/index.html); Near Zero Waste (http://www.now-turkey.org/) and Renewable Energy Financing Frameworks in Kazakhstan, SEMED and Ukraine.

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12 https://www.ebrd.com/cs/Satellite?c=Content&cid=1395277205090&d=&pagename=EBRD%2FContent%2FDownloadDocument

13 http://www.oecd.org/dac/financing-sustainable-development/blended-finances-principles/

14 https://www.ebrd.com/cs/Satellite?c=Content&cid=1395271168517&d=&pagename=EBRD%2FContent%2FDownloadDocument

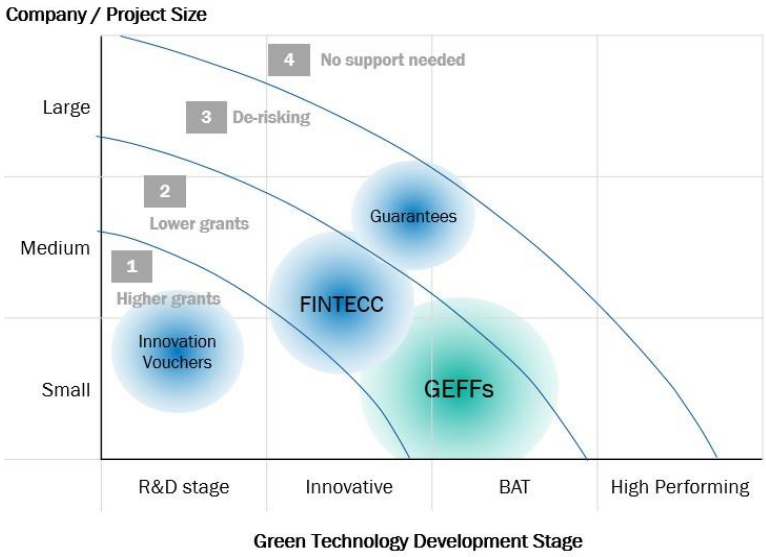
15 https://www.bundesfinanzministerium.de/Content/DE/Downloads/G20-Dokumente/principles-on-crowding-in-private-sector-finance-april-20.pdf? blob=publicationFile&v=2

Considerable differences in market development stages and sector-specific transition gaps across COOs require tailored approaches. The underlying objectives for the use of CBF varies across programmes, but typically relate to accelerating climate technology transfer, promoting higher environmental standards and incentivising positive environmental impact. Concessional finance is also used to kick-start or accelerate renewable energy market development by de-risking transactions, facilitating investors' access to finance and private sector mobilisation (closing the funding gaps).

Several instruments can co-exist in parallel in the same market as long as they address different market segments (affected by specific barriers and risks), use different channels and aggregators to reach end-borrowers (such as direct lending, local commercial banks, leasing companies or special purpose vehicles and dedicated funds), support different performance levels of technologies and, to the extent possible, synergies are maximized and overlaps minimised.

An emerging trend in the design and deployment of CBF during GET 1.0 includes a gradual shift away from grants towards concessional co-financing and, more recently, risk sharing, guarantees and credit enhancement instruments. This is reflective of enhanced attention on mobilisation, of a context of scarce public resources resulting in focusing donors on financial instruments enhancing mobilisation and leverage, and the evolution of low-carbon technology markets in the EBRD COOs. Figure 3.2.1 positions different programmes using CBF in relation to green technology development stage and company/project size.

Figure 3.2.1: Concessional blended finance spectrum



While the EBRD has the business model and the operational capacity to incorporate and support this shift, the choice of instrument and its calibration may be informed by: (i) country context and its impact on the target business sector (including the availability and affordability of green finance); and (ii) the type and extent of market failures, barriers and risks to be addressed (e.g. the diffusion of low-carbon technologies, development of technology supply chains, size and fragmentation of the borrowers in the target market segment).

In line with the DFI Enhanced Principles for Concessional Blended Finance, the EBRD approach follows the principles of additionality, crowding-in, minimum concessionality, commercial sustainability and promotion of high standards in CBF operations. To reflect the evolution of markets and to limit distorting effects, the Bank checks market conditions to phase out incentives when market forces are able to reward risks and price externalities. The maintenance of a given level of grant intensity while increasing eligibility requirements for the programme can be an option to drive the application of higher environmental standards. Accordingly, the Bank can support 'the market to move forward' by continuing to focus on first-adopters and maintaining the level of support for higher performance standards and more complex packages of measures than in previous phases.

The corporate sector is most likely to see reducing levels of concessionality over time due to regulatory and market developments. However, innovation is likely to require grant support in the foreseeable future in the region due to persistent lack of institutional capacity and limited available R&D resources. Furthermore, in most of the EBRD region, and especially in its less developed economies, SMEs, small local authorities and residential sectors facing significant affordability barriers are still likely to require significant levels of support for the foreseeable future.

The continuing need for concessional resources arising from the high current level of market failures combined with constraints on donor funds imply a drive for more advanced financing structures favouring the use of results-based or market-based instruments with resulting higher transaction costs and the need to be further embedded in EBRD operations and risk management processes.

The design and calibration of CBF instruments under GET2.1 will build upon EBRD and international best practice incorporating lessons learned from previous experience and reflecting evolving principles, rules and standards emerging related to the assessment, disclosure and integration of environmental risks in risk management and financial decisions.

The Bank will continue to pursue transformational impact across sectors and design financial instruments using a concessionality model that incentivises and rewards: (i) private sector mobilisation and partnerships; (ii) innovation (green R&D, liquidity for market-based mechanisms at their initial stages, result-based finance, enhanced MRV practices); (iii) adoption of a robust approach to climate governance; and (iv) positive environmental impact. It will also reflect lessons learned from experience including striking the right balance between the complexity of the concessional model and programme marketability, implementation and ease of verification and auditing; and the combination and sequencing of different types of interventions within a long-term market development approach addressing the multiple barriers and risks affecting a target sector.

Reflecting the systemic approach of GET2.1, CBF instruments could support a sequence of transformative shifts within a sector by incentivising the uptake of high impact climate technologies in a first shift, coupled in a second shift with behavioural change at governance and management levels as GHG reduction targets and climate governance are incorporated into strategic decision making

3.2.2 Mobilisation

Mobilising domestic and international investment in support of countries of operations is a core objective of the EBRD as set out in AEB in Article 2.1(ii) and is a strategic goal for the

Bank in the period covered by the Strategic and Capital Framework 2021-2025. This institution wide commitment has been reinforced in the context of the Addis Ababa Action Agenda which states that private sector mobilisation is central to the achievement of the SDGs, and the Hamburg principles.

The transition towards a green low carbon economy requires large-scale investments. The European Commission estimates[16] that to achieve the energy and climate policy targets in the EU alone, additional annual investments of €170 billion are required. The current investment gap calls for rapid and substantial redeployment of capital towards sustainable activities that foster employment, productivity and competitiveness. The scale of the investment challenge is well beyond the capacity of the public sector alone, thus mobilising and orienting private capital flows towards sustainable investments is crucial.

Mobilisation in support of green investment both under GET1.0 and GET2.1 reflects the Bank's overall approach. Based on the joint MDB methodology, EBRD climate co-finance levels during the last three years ranged between €6 and 7 billion annually, including public co-finance and private direct and indirect mobilisation.

Table 3.2.1: EBRD Climate Co-finance[17]

Climate Co-finance (EUR million)	2016	2017	2018	2019
Private Mobilisation, out of which:	3,519	5,337	4,515	4,836
Private Direct Mobilization	441	397	154	295
Private Indirect Mobilization	3,078	4,939	4,361	4,541
Public Co-Finance, out of which:	1,281	2,032	1,749	1,147
Other MDBs	573	1,133	1,082	582
Total	4,799	7,369	6,264	5,983

Source: Annual Joint MDB Reports on Climate Finance.

GET related B-loans account for a significant share of the loan syndications activity. In 2019, the GET share of overall syndications was 73% (€295 million). This opens up the opportunity to explore the possibility of impact-oriented B-loan funds targeting institutional impact investors. Mobilisation where an external investor is exposed to the underlying risk of the EBRD client/project (whether through B loan, Parallel loan, or unfunded risk participation) increase the familiarity of investors with country, client and GET product credit profiles in the EBRD region. A positive experience may then encourage investors to increase their exposure, and potentially to initiate their own risk-taking positions. Such mobilisation tools can also meet the EBRD's own financial objectives where it is seeking to manage specific exposures and/or create capital headroom through expansion of its overall mobilisation programme.

While co-financiers may be attracted by the GET-linked use of proceeds and other features, their financing decision remains dependent on their credit appetite for the relevant private debt exposure in the EBRD region. The volatility of the GET AMI mobilisation ratio reflects the volatility of market appetite for credit risk in the EBRD region, depending on whether the market has been in risk-off or risk-on mode, as well as the varying annual incidence of large GET transactions for investable names in specific years.

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16 EC High-Level Expert Group on Sustainable Finance Final Report https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

17 Climate co-finance figures reported in line with the joint MDB methodology. External resources mobilised and managed by EBRD from climate funds (e.g. the Green Climate Fund) are not included in these figures as they are reported as 'climate finance'.

While the Bank's Green Bond Programme is a funding tool rather than project level mobilisation, it has been the major way in which external investors have been associated with GET1.0 activities with cumulative funding reaching €5.2 billion by end 2019.

Going forward, the enhancement of private sector finance mobilisation to support the green low carbon transition will be pursued by scaling-up the deployment of instruments reflecting work and experience during GET1.0 including:

- **Risk Instruments** pursuing development work on **EU guarantee instruments**, which have private sector mobilisation for climate related investments as a principal aim (e.g. External Investment Plan for Neighbourhood, Invest EU for Member States and the new pilot for Western Balkans). Another approach being explored is the **unfunded risk participation model** where FI clients commit to utilise resulting capital relief from risk-shared amount to develop new 'GET-aligned' portfolios equivalent to a multiple of the risk-shared amount.
- Mobilising **Impact Investors** through **Syndications,** with the Bank supporting efforts for the development of **impact-oriented B-loan funds or other vehicles**.
- **Capital Market Instruments**, by supporting and facilitating client issuances of **green, transition and climate resilience bonds,** building on the Bank's in-house expertise and experience with this asset class. This is highly relevant for financial institutions, utilities and corporate clients (including for hard-to-abate industries). Furthermore, exploratory work is underway under EBRD Green Cities to support the development of a municipal green bond market.

As is the case for the Bank as a whole, the prospects for GET-linked mobilisation will be dependent on market conditions and on whether the Bank continues to pursue mobilisation largely on a case-by-case basis, or is successful in launching a portfolio approach to mobilisation. Mobilisation possibilities can therefore be illustrated in Table 3.2.2 and will evolve over time as reflected in the review of impact investment potential undertaken in 2019.

Table 3.2.2: Mobilisation options

	Mobilisation case by case	**Mobilisation portfolio basis**
EM aversion	Top names only	Green bonds
EM appetite	Broader based syndication	Green bonds + Impact funds

- In the short term, the aftermath of the COVID-19 pandemic is likely to mean that potential co-financing partners will be in a risk averse mode, even to credits previously regarded by some market participants as investable. GET-linked mobilisation is therefore likely to be limited and focused only on the best names in terms of credit perception. Similarly, the attention of potential partners for an impact investor fund is likely to be directed elsewhere. Accordingly, interaction with the external investor community is likely to be focused mainly on further green bond issues when market timing is right.
- Over time, the region will recover both in terms of economic and financial stability, as well as investor perception and credit appetite. This is likely to proceed at a different pace in terms of regions and sectors in ways that are not yet clear. But this process should gradually lead to an increase in GET-linked mobilisation ratios. Trends affecting the Bank's broader mobilisation results are also likely to be reflected in the medium-term prospects for GET-linked mobilisation. This could involve further growth in unfunded risk

participations to institutional investors, and potential interest in co-financing from new collective vehicles established outside the Bank to invest in emerging market private debt exposures.

- The stabilisation of markets in the EBRD region would also allow the Bank to pursue its own planned initiative to raise some form of impact investment fund with selected institutional investors. This could take the form of parallel co-investment agreements with several institutional investors, each offering a degree of assurance and scale of mobilisation not achievable through individual case by case discussions; or such agreements might be rolled together into a single fund offering the same terms to all such investors. Relevant market experience in other contexts suggests that a successful initial fund launch and performance would pave the way for larger scale mobilisation with a wider range of institutional investors in subsequent years. In the longer term, this option could enable the Bank to scale up significantly its ability to mobilise co-financing, compared with an approach relying solely on case-by-case discussions with individual co-financing partners.

While the review undertaken in 2019 identified in principle impact investor appetite to work with EBRD, based on recognition above all of its strong GET track record, a number of issues will need to be addressed to move to scale including the risk/return profile, size of EBRD GET operations even with a higher target, and minimum scale of mobilisation. Further work on this front has been postponed in light of market disruption linked to COVID–19.

3.3 GET methodology and governance

3.3.1 Current approach and systems

The governance of GET finance attribution and impact assessment was established in GET 1.0 with ESD fulfilling an independent environmental risk assurance function on the basis of an inter-departmental collaboration [between Banking (E2C2), EPG and ESD], consensual decision making and clear roles and responsibilities.

As part of this governance, the **GET Clearing House** (GET CH) was established in 2016 to ensure a consistent, rigorous and independent approach to project-level green qualification, to assure GET integrity and support methodological developments. The GET CH is an internal group with cross-departmental membership, [chaired by ESD, including Banking (represented by E2C2) and EPG] and acts as a second line of defence for the GET attribution (Banking being the first line of defence).

The EBRD GET finance methodology is described in the EBRD **GET Handbook** which is public and available on www.ebrd.com since 2018 with the latest version to be issued soon. The GET Handbook is updated periodically to reflect both the evolution of external green finance criteria and experience from projects.

GET finance attribution is primarily based on the ex-ante assessment of the use of proceeds of individual projects financed by the EBRD. In particular, it refers to project components which are expected to deliver positive green outcomes. The methodology used by the EBRD draws from the **joint-MDB climate finance tracking methodology** (which only covers **climate finance i.e. mitigation and adaptation finance**) which was developed in 2011 and has been regularly updated to reflect technological, policy and market developments towards higher levels of sustainability and impact. In addition to climate finance, the GET finance methodology, starting from 2016, also includes **other environmental finance** components

which, among other sources, are derived from best practices for green project qualification (e.g. Green Bonds Principles). These are typically project components that result in positive environmental outcomes in terms of air quality, water savings, water quality improvements, resource efficiency, waste management, environmental remediation and protection and restoration of land and marine ecosystems. Environmental benefits associated with GET financing are identified and assessed as part of Environmental and Social Due Diligence (ESDD). Use of proceeds associated to GET finance are included in the EBRD finance agreements which often also include specific client undertakings (such as disclosure, performance requirements, climate corporate management practices, monitoring).

In contrast to most MDBs, the EBRD has a tracking system which includes a separate assessment of climate finance (i.e. both mitigation and adaptation) and other environmental finance. As projects may lead to multiple co-benefits, the Bank tracks the overlap between the different financial flows: when total GET finance figures are reported, the overlaps are always subtracted to avoid double counting. GET finance is disclosed across several documents and in particular: (i) the annual **joint-MDBs Climate Finance Report** (which focuses only on climate finance data); and (ii) the annual **EBRD Sustainability Report**, which includes the whole set of GET finance figures i.e. both climate finance and other environmental finance. In addition, starting from 2019, the EBRD publishes annually in its Sustainability Reports a list of all projects with GET finance attribution.

The Bank GET methodology has provided a disciplined approach supporting the analysis of GET projects and the tracking of green financial flows during the GET 1.0 period. It also allowed the Bank to disclose a wide set of GET results across most areas of GET delivery. At the same time, operational experience has revealed some specific issues and areas for improvement and optimisation, as reflected in the recommendations comprised in the reports of EvD and Internal Audit on GET1.0 (see section A2.3 on lessons learned):

- **External developments**: the external context on climate and sustainable finance has rapidly evolved in recent years with an increasing focus on the goals of the Paris Agreement and new taxonomies emerging (such as the EU Taxonomy on Sustainable Finance). The GET Handbook was originally developed on the basis of the joint-MDBs approach on climate finance and other internationally recognised classifications covering other environmental dimensions (e.g. the Green Bond Principles). In light of these external developments, the GET Handbook has evolved over time to integrate external definitions and taxonomies to ensure consistency with best practice, comparability across the financial sector in the assessment of sustainable financial flows and to support specific disclosure requirements (including of clients). Going forward the Bank will increasingly refer to these external developments, also to help address growing external scrutiny (e.g. by rating agencies, NGOs and CSOs), reduce reputational risks and facilitate the development of dedicated financial products linked to capital markets.
- **GET assessment and confirmation**: the GET assessment and GET finance attribution are the result of a review process based on internal technical and operational expertise. To improve accountability and integrity, reflect best management practice and following the recommendations from the EvD and Internal Audit reports, the separation between (i) **project development (i.e. Banking), assessment and proposal; and (ii) review, confirmation** and **reporting** needs to be further strengthened to take into account internal organisational arrangements, areas of functional and technical specialisation and reputational risk mitigation measures.
- **Data management**: the scaling-up of GET activity has been accompanied by increasing disclosure requirements (both internal and external) and, consequently, by the growth in

the number and complexity of indicators to be tracked (in particular, related to outcome metrics). This trend has not been supported by the necessary improvements in systems to ensure data integrity, consistency and operational efficiency. The EBRD IT systems, internal capacity and data governance arrangements are currently insufficient to support these evolving requirements resulting in substantial tracking limitations (e.g. to reflect material changes in project implementation and ex-post performance) and occasional reporting discrepancies. Hitherto, the Bank has utilised *ex-post* data only for a limited number of cases for the development of new projects or feedback loops to increase the accuracy of GET attribution.

3.3.2 GET2.1 approach

The GET 2.1 assessment and finance attribution will be based on enhanced principles and operational arrangements in GET **governance, methodology, data management** and **processes** to address the issues emerging from practical experience, to reflect relevant external developments in sustainable finance and to improve integrity, governance and operational efficiency.

Taking into account international best practice and the EU Sustainable Finance Strategy, GET finance will increasingly reflect the emerging classifications, especially in areas which are currently not covered by the j-MDBs methodologies. These classifications, already present in GET 1.0, include: (i) sustainable use and protection of water and marine resources; (ii) transition to a circular economy; (iii) pollution prevention and control; and (iv) protection and restoration of biodiversity and ecosystems. These will be further strengthened in GET 2.1. The new approach should also strengthen the link between GET projects and clients' environmental, social and governance (ESG) policies and strategies, building on the work described in section A2.1.1. The GET finance governance will be designed in line with established practices for external auditing and with the recommendations provided by Internal Audit. An independent external review of the GET attribution process may be considered to periodically audit the process, as a third line of defence.

Governance of GET finance attribution and impact assessment. In GET2.1, the governance of GET finance attribution impact assessment and reporting will be based on a clear **separation of: (i) the project development, assessment, proposal and portfolio management, from (ii) the review, confirmation and reporting functions** on the basis of best practice and the indications from the EvD and Internal Audit reports.

Governance arrangements will mirror established internal operational practices and accountabilities. In particular, the review, **assurance and control function role of the GET Clearing House will be further strengthened**, both in scope and independence, in line with internal and external stakeholders' demands for transparency and rigour. This will serve as an ***ex-ante*** GET quality assurance mechanism.

In addition, the Bank will enhance the post-signing monitoring, verification and reporting (MRV) mechanisms of GET finance and impact. For *ex-post* monitoring, this will be achieved through increasing integration and improved quality control in the project monitoring process of the EBRD. Following IA recommendations and as a second line of defence, verification will be performed independently from Banking to confirm that the environmental benefits foreseen during project appraisal have been estimated using the correct models and assumptions.

The separation between monitoring and review/verification will serve as an ***ex-post*** GET quality assurance mechanism, which will define roles for improved governance of the MRV system. Allocation of internal responsibility for GET finance and impact **reporting and disclosure** will be based on the existing finance, policy and risk accountability within the Bank. The role of the ESAP as a tool to define and track GET environmental impact metrics will be explored during GET 2.1 implementation.

GET activities will be coordinated within the internal Climate Action Network to ensure alignment and maximise synergies of climate actions across the Bank.

Methodology. In GET2.1 the EBRD will fully incorporate sound and internationally-recognised standards into its own assessment, to reflect increasing standardisation in the financial sector in the assessment and tracking of green financial flows. The Bank will adopt and apply (taking into account regional considerations): (i) external and widely-recognised methodologies and taxonomies for GET finance attribution and impact assessment; and (ii) external disclosure and reporting frameworks. This is in line with the general approach of the Bank towards adoption of best practices and trends emerging as a result of market and policy developments. This approach will also facilitate the shift of the broader financial sector in the EBRD region towards best global practices and improve consistency and discipline in financial analysis and ESG reporting.

Relevant methodologies and taxonomies include: joint-MDBs/OECD methodologies, the EU Taxonomy for Sustainable Finance, EU Environmental legislation, Green Bonds Principles (including in relation to the work of the Climate Bonds Initiative), Principles of Responsible Investments, Sustainable Blue Economy Finance Principles and TCFD Guidelines. To further improve coordination, internal and external discussions on new GET-related methodologies will include representatives of relevant departments, as appropriate.

In this context, the GET Handbook will gradually incorporate external methodologies, taxonomies and GET indicators, and will include guidelines on their selection and adoption, in this way providing a clear reference for EBRD operations and, at the same time, for external stakeholders including FIs in the region. Impact reporting will similarly be aligned with best international practice, such as the Green Bond Principles Impact Reporting standards and guidance.

GET Data Management. Maintaining and improving quality and integrity of GET data is critical to ensure consistency of analysis and inform effectively internal processes including management and Board decisions. GET2.1 will include an enhanced GET data management practice based on the following principles and considerations:

- Strict **separation of: (i) the project preparation and assessment, and portfolio management from (ii) review, confirmation/verification and reporting** functions to ensure clear definition of data "ownership" and validation processes.
- Strengthening **data quality control practice** supporting GET project assessment. Enhancements include the clear definition of climate analytics and data used for baseline determination and their integration in the Bank's project-level operational systems.
- Centralisation of **GET data filing and integration** in the EBRD IT systems. This will require the extensive involvement of the Climate Data Working Group in the design of criteria for the upcoming IT improvements. The implementation pace will be determined by resources allocation and IT internal developments.

3.4 External partnerships

Building on its network of relationships, the Bank will pursue the development of the following types of partnerships:

- **Institutional partnerships** involving extended collaboration of a continuous nature across a broad range of areas.
- **Policy partnerships** at both local and international level allowing the Bank to implement effective local policy dialogue and to benefit from and contribute to international initiatives working at the frontier of policy development in specific areas.
- **Business partnerships** which, reflecting the Bank mandate and operating model, are important to involve the private sector in the development and roll-out of effective green products.
- **Funding partnerships** aiming at mobilisation of private finance, co-financing with other MDBs/DFIs, and with concessional funds through blended finance instruments.
- **Technical partnerships** supporting knowledge sharing and driving innovation.

Tackling the complexity and urgency of the climate crisis at a time where concomitant environmental, social and economic challenges threaten global development objectives, requires strong collaboration between national and multilateral organisations. The resulting **institutional partnerships** are important to develop joint actions, leverage on each institution's strength and competitive advantage and optimise use of human and financial resources towards common goals.

The collaboration between **MDBs** on climate action, started over a decade ago, created the first global taxonomy for climate finance informing the tracking of climate financial flows between developed and developing countries[18]. Among other relevant areas of joint-work, MDBs pioneered carbon markets instruments, kick-started the market for green bonds globally and are now leading the way, in the financial sector, in the development of a framework for alignment with the goals of the Paris Agreement (section 2.3). In this context, MDBs announced ambitious climate finance commitments for 2025 at the UN SG Climate Summit in 2019 with a strong focus on mobilisation and climate adaptation finance.

Additional areas of MDB cooperation in GET2.1 will include: (i) support to COOs in addressing climate goals through enhanced NDC and LTS (section 2.4), within and beyond the remit of the NDC Partnership[19]; (ii) development of practices and systems for climate risks assessment and management; and (iv) joint-work in developing market-based instruments reflecting the mechanisms of Art. 6 of the Paris Agreement. Continued cooperation with other MDBs operating in the EBRD region including the World Bank Group, the African Development Bank, the Asian Development Bank, the European Investment Bank and the Asian Infrastructure Investment Bank will provide a range of opportunities for enhanced activity and impact.

The collaboration with the **European Commission** and other relevant organisations of the **European Union** is of particular relevance to the EBRD at the policy, operational and funding levels. The Bank can contribute to the implementation of the **European Green Deal** both within and outside the EU with particular attention on promoting green private sector action

[18] https://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/ provides a good overview of the role of MDBs in the global climate finance ecosystem.

[19] https://**ndcpartnership**.org

and finance, developing renewable energy markets and sustainable utilities, rolling-out of the **International Platform on Sustainable Finance,** and promoting the adoption of EU sustainability standards and practices. During GET1.0, the EBRD contributed substantially in many technical areas including the preparation of EU Sustainable Finance Taxonomy (DG Fisma), the definition of circular economy financing mechanisms and supporting policies (DG RTD) and the development of the investment criteria of the Innovation Fund (DG Clima).

The collaboration with the **UN Secretary General** and relevant **UN agencies** is important to build on the convening power of the UN and the technical expertise of its agencies on specific themes and initiatives. The EBRD, jointly with the other MDBs, actively contributed to the UN SG Climate Action Summit in September 2019 with joint commitments on climate finance and alignment with the goals of the Paris Agreement. Among other initiatives, the EBRD has active MoUs with the FAO and IMO to develop and support sectoral best practices and standards, and cooperates with the UNEP-FI in the implementation and dissemination in the financial sector of TCFD guidelines. Additional areas of development going forward include the cooperation with the ILO on just transition and with WIPO on green innovation.

Policy partnerships, both at international and local levels, support GET policy delivery and allow the EBRD to anchor its GET activities for market development and transformation within shared and publicly recognised policy frameworks. This is particularly important, as the capacity to develop and implement climate and sustainability policies remains weak in most of the COOs. At international level, the active cooperation with the **Coalition of Finance Ministers for Climate Action** (of which the Bank is an Implementing Partner) and the **Network for Greening the Financial Sector** (**NGFS**, of which the Bank is an Observer) are priority partnerships to accelerate the development of green financial systems.

At local level, the engagement with mayors in the **Green Cities** programme of the Bank supports local authorities to identify priority green projects on the basis of climate and sustainability criteria. The EBRD facilitates the link of this work with global initiatives and partnerships such as the **C40** and the **Global Covenant of Mayors** to accelerate adoption of best practices in the cities in the EBRD region.

The EBRD facilitates policy partnerships at local level through the active involvement and work of its Resident Offices. To enhance this function, the Bank placed sector economists in ROs to support policy engagement and launched the **GET Ambassadors Network** at the end of 2019 including selected staff in ROs who specialise in country engagement activities in the GET policy and operational areas with the objective of building and supporting local partnerships and accelerate knowledge transfer. Enhancing the capacity of the sector economists and of the GET Ambassadors Network in the ROs is an operational priority for GET2.1, in line with increased country focus.

Business partnerships are effective platforms to identify common challenges at local, sectoral and value chain levels, to align interest across market players, to develop long-term action plans and to provide signals to policy makers and financiers about regulatory gaps and financial needs. This work is particularly important to identify least-cost decarbonisation pathways in hard-to-abate sectors (such as industry, freight or buildings) and to accelerate innovation on the basis of collaborative initiatives in areas such as circular economy, digitalisation and sustainable food systems.

Pilot work of the EBRD with sector associations during GET1.0 (e.g. with the cement sector in Egypt and Kazakhstan) and participation in international and regional developments (e.g.,

European Battery Alliance) demonstrate the effectiveness of business partnerships and the role the EBRD can play with its private sector mandate. The involvement of technical partners like the **International Energy Agency (IEA)** and the **World Business Council for Sustainable Development (WBCSD)** is also important to benefit from their convening power and expertise.

Examples of specific initiatives to be implemented in GET2.1 include, the development of a decarbonisation pathway in the nitrogen fertilisers industry (jointly with the IEA and the International Fertilisers Association), and the Sustainable Bioenergy Value Chain Innovation Programme in Ukraine, which brings together agribusiness companies, engineering firms, research institutes and energy utilities to accelerate the development of sustainable biomass feedstock value chains with an emphasis of agricultural residues.

Scaling up green financial flows, particularly in respect to private finance mobilisation, requires effective collaboration with international and bilateral **funding partners**. Cooperation with the EU, bilateral donors and the international climate and green funds (e.g. GCF, CIF and GEF) has evolved over time moving beyond individual "business" interactions towards strategic relationships reflecting joint priorities and actions. Section 3.5 describes the importance and content of these funding partnerships.

Technical partnerships are important for the Bank to remain informed about evolving scientific and technological developments. The Bank is involved and actively participates in a range of technical partnerships from networks promoting common market standards in the financial sector (e.g. International Capital Market Association, Climate Bonds Initiative) to initiatives defining technical criteria for sectors, products, technologies and business practices (ISO, World Green Building Council, Global Infrastructure Connectivity Alliance). Technical partnerships are also important to advance green innovation and support research activities (e.g. Ellen McArthur Foundation on circular economy).

3.5 External funds

Since the launch of the Sustainable Energy Initiative in 2006, the mobilisation of donor funds has been a core driver for the Bank's environmental and climate related activities. Donors and the availability of external funds are key contributors to the strong results achieved to date, and this will remain the case going forward with GET2.1.

The EBRD has established strong partnerships with the major **global climate funds**, including the Green Climate Fund (GCF), Climate Investment Funds (CIF) (including the Clean Technology Fund), and the Global Environment Facility (GEF). To date, these three funds have signed contributions amounting to **€1.37 billion**, with the total associated finance expected to reach €5.2 billion from the EBRD and an additional €2.7 billion from mobilised co-financing.

For example, the Bank initiated a close **partnership with the GCF** from its inception, which has developed over the GET1.0 period into cumulative signed contributions of **€730 million** with six projects under implementation ranging from mitigation (renewable energy facilities in Egypt and Kazakhstan), regional cross-cutting programmes (GEFFs and Green Cities) to adaptation projects in Morocco and Tajikistan.

At the forefront of international action for climate and environment, the **European Union** (EU) is a major funding partner of EBRD. During the GET1.0 period to date, around **€307**

million of EU grant co-financing[20] has been signed in support of green investments with a total project value of **€1.88 billion**[21]**.** In addition, over the same period the EU has provided approximately **€89 million** for technical cooperation activities.

Through the **Eastern Europe Energy Efficiency and Environment Partnership (E5P)** and the **Northern Dimension Environmental Partnership (NDEP)**, the Bank currently manages over **€400 million** on behalf of 25 donors and 8 Implementing Agencies (CEB, EBRD, EIB, IFC, KfW, NEFCO, NIB, World Bank).

The EBRD has also received significant **bilateral support** from donors including Austria, CEI, Finland, Greece, Israel, Italy, Japan, Kazakhstan, Korea, Luxembourg, Netherlands, Poland, Slovak Republic, Spain, Sweden, Switzerland, Taipei China, Turkey, and the United Kingdom. Bilateral grants, concessional loans and risk-sharing amounted to over **€106 million**, linked to an aggregate total project value of **€841 million**, with an **additional €64 million** provided for technical assistance.

Bilateral donors and **the EU** also contributed with concessional resources pooled via **multi-donor funds**[22]. Such support includes **€117 million** grant co-financing for green investments with total value of **€694 million** as well as **€15 million** for technical assistance. Furthermore, the EBRD shareholders provided significant support through the **Shareholder Special Fund** (SSF), including **€72 million** concessional finance and **€151 million** for technical assistance.

A flagship example of cooperation with multiple donors is the **Western Balkans Regional Energy Efficiency Programme** (REEP) where the EU has contributed €59 million for EBRD investment and policy activities until end-2019, alongside approximately €26 million from bilateral donors, the SSF and the European Western Balkans Joint Fund. EBRD finance for investments associated with REEP is expected to total €377 million, targeting renewable energy and energy efficiency in buildings, municipalities and businesses across the region. Donor resources for the REEP have also enabled 40 key climate policy outputs to date, including the transposition of the Energy Performance in Buildings Directive and related secondary legislation in five countries.

External funding from both bilateral and multilateral sources is very important to the success of the GET business model, having provided critical support to create an enabling environment – such as for green policy development, market analysis, project feasibility, procurement and implementation support and the deployment of flagship GET programmes.

Table 3.5.1: Examples of donor funded GET activities and programmes[23]

GET Project Preparation Framework	Austria, CEI, EU, Italy, Japan, Spain, Taipei China, EBRD SSF, GEF

[20] Includes co-investment funds signed towards GET projects from EU regional blending facilities (e.g. Neighborhood Investment Platform, Investment Facility for Central Asia etc.) and investment grants channeled via European Western Balkans Joint Fund.

[21] Total project values quoted in relation to EU, bilateral and multi-donor fund support refer to GET projects associated with co-investment funds (non-TC) signed with clients in 2016-2019, and do not include those associated only with TC. For a small number of projects, co-investment funding has been provided by multiple donors.

[22] These include, among others: the Eastern Europe Energy Efficiency and Environment Partnership, the Northern Dimension Environmental Partnership, the EBRD Southern and Eastern Mediterranean Multi-Donor Account, the EBRD Early Transition Countries Fund and the EBRD Ukraine Stabilization and Sustainable Growth Multi-Donor Account.

[23] Green Climate Fund, Climate Investment Funds and Taipei China are providers of concessional co-financing while the EU and other bi-laterals have mainly provided technical assistance and grants.

GET Policy Dialogue Framework	Czech Republic, EU, Japan, Slovak Republic, Spain, EBRD SSF, CIF, GEF
Green Economy Finance Facilities	Austria, EU, Sweden (SIDA), Taipei China, CIF, E5P, GCF, EBRD SSF, GEF, Japan, Korea, Luxembourg, Poland, EWBJF
Green Cities Framework	Austria, Czech Republic, Japan, Korea, Sweden (SIDA), Taipei China, EBRD SSF, E5P, GCF, CIF, EU, Global Concessional Financing Facility
FINTECC incl Innovation Vouchers	Austria, CEI, EU, EBRD SSF, GEF, CIF
Near Zero Waste (Turkey)	Austria, EU, Netherlands, Taipei China, CIF, EBRD SSF
Renewable Energy Frameworks (Egypt, Kazakhstan, Ukraine)	Multiple donors including CIF and GCF

The Bank pursues an active GET funding mobilisation approach to expand transformational impact and scale up sustainability financing. In line with the GET2.1 approach to business development and policy engagement to trigger systemic change, financing instruments will use a model that incentivises**:** (i) private sector **mobilisation** and partnerships; (ii) **innovation** (green R&D, liquidity for market-based mechanisms at early stage, results-based finance, enhanced MRV practices); (iii) adoption of a robust approach to **climate governance**; and (iv) positive **environmental impact**.

The Bank engages regularly in policy dialogue with external funds and contributes to the definition of their policies and strategic priorities, the formulation of new programmes and the design of new financial instruments. This engagement may be on a bilateral basis or by participating in technical working groups together with other implementation partners.

Building on the strong relationship and experience with the **GCF** and following its first replenishment, the EBRD is proposing an ambitious **Work Programme** with a pipeline of **new concepts** each comprising a mix of policy, technical and investment support to benefit multiple COOs. This Work Programme expands the EBRD-GCF partnership by: (i) programming for **increased impact**, by tackling challenging areas such as electricity grid reinforcement and the electrification of transport; (ii) **diversifying the use of financial instruments** such **as sustainability-linked loans**; (iii) addressing persistent financing barriers such as a lack of **local currency financing**; and (iv) enhancing the predictability of financing and scaling-up investment, by adopting a **programmatic approach** to tackle complex climate challenges.

In the context of the European Green Deal, the EBRD is working closely with **the EU** building on the strong collaboration established to date. In addition to continued work with established EU blending facilities and grant instruments, new green co-financing instruments of significant volume are currently being developed, using a range of EU guarantees including **InvestEU**, the pilot **Western Balkans Guarantee** instrument, the European Fund for Sustainable Development (**EFSD**) guarantee for the Neighbourhood, and its successor under the forthcoming Neighbourhood Development International Cooperation Instrument (**NDICI**).

The Bank should build on its strong relationship with **bilateral donors**, including the development of new multi-donor arrangements, to provide technical assistance and blended finance for climate and environmental action. Complementary to other resources from the EU and the global climate funds, such multi-donor partnerships can be a **key enabler of systemic approaches in individual thematic areas** and can provide the end-to-end support needed to bring well-structured and bankable projects to market.

In the COVID-19 crisis recovery context and during the recovery phase, external funding remains crucial to assist clients to prioritise green investments, avoid carbon lock-in, strengthen their business resilience through incorporation of climate risk management and become more agile through flexible and adaptable supply chains (see section 4.6). Continued support for LTS (including low carbon roadmaps), national climate policies and NDCs and advisory support for corporate climate governance will be necessary to create the 'investment for growth' perspective post-crisis. During the economic recovery phase, concessional finance may be needed in certain cases to expand the scope of GET programmes to finance resilience in supply chains and incentivise clients to shift from linear to circular business models. Consultations with donors are underway to explore flexibility in partly repurposing funding under existing programmes as well as the potential availability of additional funds to help ensure a green recovery that addresses the longer-term climate and biodiversity crises.

3.6 GET 2.1 performance dashboard

Reflecting experience with the implementation of GET1.0 and taking account of feedback from the Board, and reports from EvD and Internal Audit, GET2.1 will introduce an enhanced set of indicators supporting evolving and incremental disclosure requirements and a robust and comprehensive assessment of outcomes.

This performance dashboard is comparable with international best practice in climate and sustainable finance performance analysis (e.g. CDP Disclosure Framework). In addition, it builds on relevant indicators in the EBRD **Compendium of Indicators** and is consistent with the requirements related to **impact finance** programmes and initiatives. Metrics will be reviewed taking account of emerging external references. In relation to GET finance, climate finance, including mitigation and adaptation, will follow primarily the joint-MDBs/IDFC methodology). For **non-climate related environmental finance**, reference will be taken on the EU Sustainable Finance approach as related taxonomies become available on: (i) sustainable use and protection of water and marine resources; (ii) transition to a circular economy; (iii) pollution prevention and control; and (iv) protection and restoration of biodiversity and ecosystems.

The GET2.1 performance dashboard integrates the GET2.1 finance target ratio set out in section 4.8 and includes two further components: (i) a set of aggregate indicators; and (ii) a set of metrics defined at the level of individual thematic areas described in section 2.5.2. Indicators on Table 3.7.1 will be tracked and reported systematically from 2021. The detailed identification and formulation of thematic activity indicators in Table 3.7.2 will be made during 2021 taking account of data availability and relevance to Bank impact objectives in each area.

Aggregate indicators include:

- **Compositional indicators** related to four specific Bank strategic parameters: private share of GET finance, level of climate finance, adaptation share of GET finance,and GET mobilisation.

- **Performance indicators** reflecting key inputs and outcomes of GET projects, including relative to the GHG reduction range over the GET2.1 period. Most of these indicators are already included in the existing EBRD Compendium of Indicators and are mainly assessed and tracked at project level.
- **Process indicators** monitoring progress with the implementation of specific GET2.1 processes and organisational arrangements.

Table 3.7.1: GET2.1 aggregate indicators

Indicator	Unit	Type	Post-signing monitoring	Methodology	Disclosure	Implementation
Compositional						
GET Finance private sector share	% of GET Finance	Output	No	EBRD BPN	Annual, aggregated	On-going
Climate finance	EUR % of ABI	Input	Yes	j-MDBs	• Annual, aggregated • Specification for mitigation and adaptation finance	On-going
Climate Adaptation Finance	EUR % of ABI No. of projects	Input	Yes	j-MDBs	• Annual • Project level and aggregated	On-going
GET mobilised finance	EUR % of TPV	Outcome	Yes	j-MDBs	• Annual, • Project level and aggregated	On-going
Performance						
Climate finance mobilised	EUR, Leverage factor	Outcome	Yes	j-MDBs	• Annual, aggregated • Specification for mitigation and adaptation finance	On-going
Net GHG emissions	tonCO_{2e}/year % of 5-years target	Outcome	Yes	IFIs	• Annual • Project level and aggregated • Cumulative, aggregated	On-going
Gross GHG emissions	tonCO_{2e}/year	Outcome	Yes	IFIs	• Annual • Aggregated[24]	2021
Net water use	m^3/year	Output / outcome	Yes	GET Handbook	• Annual • Project level and aggregated	On-going
Circular Economy Finance	EUR % ABI	Input	Yes	EIB-EBRD methodology [25]	• Annual • Project level and aggregated	2021
Environmental finance	EUR % ABI	Input	Yes	GET Handbook	• Annual • Project level and aggregated	On-going
Environmental impacts	various (impact specific)	Outcome	Yes	GET Handbook	• Annual • Project level and aggregated[26]	2021
Net climate resilience benefits	EUR % of TPV	Outcome	Yes	j-MDBs	• Annual • Project level	On-going

[24] All projects above ESP thresholds included, scope 1 and scope 2.
[25] Developed in the context of EU (DG RTD) Expert Group on Circular Economy Financing.
[26] Such as pollution reduced (tonnes); ecosystems recovered (ha); water treated (m^3); waste treated (tonnes).

Green Cities	various (output specific)	Outcome	Yes	EBRD Green Cities Programme	• Annual • Project level and aggregated	On-going
Process						
Paris Agreement alignment assessment	No. of projects assessed Overall Progress	Output Output	Yes	j-MDB approach	• Annual, aggregated • Annual, aggregated across all BBs	2022
Green Cities	No. of projects assessed	Output	Yes	EBRD Green Cities Programme	Annual (tracked quarterly)	On-going
Green Bond eligibility assessment	Binary: eligible /non-eligible	Output	Yes	GBP[27] and EBRD GB	Annual (tracked quarterly)	2020

In addition, as part of the implementation of GET2.1, indicators will be gradually defined for each thematic area, including in relation to specific SDGs. This will provide a high level of granularity at thematic area level complementing the aggregate indicators shown on Table 3.7.1. It will also allow to report Bank activity and results relative to the SDG framework.

For illustrative purposes, Table 3.7.2 identifies main SDG links for each thematic area provides indicative thematic area performance metrics leading to the definition of specific indicators. As these performance metrics are finalised at the thematic level, they will be integrated into on-going work across the Bank to link activities with relevant SDG goals and metrics. This will enable the Bank to highlight how its work contributes to the achievement of the SDGs.

Table 3.7.2: Indicative thematic area metrics

Thematic area	SDGs Links			Potential metrics	
Energy Systems	7	9	13	Share of RE electricity production	Carbon intensity of total energy supply
Sustainable Connectivity	8	9	13	Market adoption of service-based mobility systems and logistics	Increased GDP share of IT industry and digital services
Cities and Environmental Infrastructure	8	11	12	No. of cities covered by EBRD green financing	No. of citizens impacted
Industrial Decarbonisation	9	12	13	No. of decarbonisation pathways developed	No. of EBRD clients disclosing sustainability performance according to EU framework for Sustainable Finance
Sustainable Food Systems	3	12	15	No. of projects including advanced sustainability practices	No. of companies adopting strategies to assess and mitigate physical climate risks along the value chains
Green Buildings	9	11	13	Green buildings finance	Adoption of advanced EE technologies and low-GHG materials in selected markets/sectors
Green Financial Systems	7	8	13	No. of EBRD partner banks joining Climate Action in Financial Institutions, UNEP FI pilot, or similar networks	No. of climate action plans developed by EBRD partner banks
Natural Capital	6	11	15	Nature base solutions (NBS) finance	No. of projects introducing sustainable soil management practices
Energy Efficiency	7	12	13	Energy efficiency finance	Primary energy savings
Climate Resilience	11	13	15	Private finance mobilised for climate resilience (including capital markets instruments)	No. of roadmaps integrating climate resilient considerations

[27] GBP: Green Bonds Principles

The full implementation of the GET2.1 performance dashboard will require enhanced internal processes and systems, including IT. The development and implementation timeframe of this dashboard will be dependent on the availability and timing of resources.

GREEN ECONOMY TRANSITION CONTEXT

A1.1 EBRD regions of operations

A1.1.1 Environmental context of the EBRD region

The EBRD countries of operations (COOs) are diverse in their geography and habitats. They face a range of differentiated environmental challenges and the capacity of institutions, regulatory systems and companies to respond to these challenges varies considerably, as reflected in the environmental indicators of the Assessment of Transition Qualities (ATQs). A country-level gap analysis[28] on SDGs shown in Figure A1.1 summarises the challenges in meeting the Goals in selected EBRD COOs. Notably, Clean Water and Sanitation (SDG6), Responsible Consumption and Production (SDG12) and Climate Action (SDG13) are rated as "significant" or "major" challenges for almost all EBRD COOs. Life on Land (SDG 15) is a "significant" challenge, while Life below Water (SDG 14) is a 'major' challenge for almost all countries where data is available.

Figure A1.1: SDG assessment by country

[28] Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2019): *Sustainable Development Report 2019*. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN): https://www.sdgindex.org/reports/sustainable-development-report-2019/

Overall, the EBRD COOs generate around 5.9% of global GDP and emit 11.2% of global green house gas (**GHG**) emissions. Energy and carbon intensities are high, exceeding the world average per GDP for both parameters. Although the regional share of GHG relative to total global emissions is lower than other emerging markets, particularly in Asia, the contribution to global emissions is likely to rise proportionately unless significant action is taken, as markets like China and India have been rapidly adopting cleaner energy sources and technologies, decoupling growth from emissions.

The degree of **vulnerability** to climate factors varies across COOs. In countries where economic activity is already exposed to high physical climate risks, such as droughts, flooding, wildfires and other extreme weather events, impacts from a changing climate are likely to be exacerbated by low levels of readiness and ability to respond. According to a Carbon Brief analysis, meteorologists and other scientists expect that a temperature rise of 1.5°C to 2°C will affect Eastern, Central and Southern Mediterranean Europe with longer hotter days and tropical nights with higher frequency of warm and cold extremes, more frequent rainfall extremes, and increased water scarcity. In Eurasia and northern Asia, Middle East/West and Central Asia, there will be significantly more frequent warm, cold and rainfall extremes, longer droughts, greater water scarcity, but longer growing seasons. In Northern Africa, there will be substantially higher frequency of warm and cold extremes and longer warmer days, and much longer drought periods.

Accordingly, while climate change may lengthen the growing season and improve agricultural yields in the central and northern parts of the EBRD region, traditional agricultural zones in the southern region are likely to be exposed to a drop in **agricultural productivity**, due to droughts and unpredictable seasonal patterns. Meanwhile the readiness level to manage climate vulnerability at country level is generally lowest in the Central Asia and SEMED regions, whereas the Central Europe and the Baltics have a higher level of readiness to manage climate risks.

There has been a significant increase in average temperature anomalies in a large part of the EBRD region of operations comparing the period 2015-2019 to the period 1981-2010. This rise in temperature causes serious stress on **water** systems, including water depletion, increased variability, groundwater depletion, increased flood and drought risks, which can worsen when combined with weak water management and regulation. North Africa, Turkey, the Caucasus and Central Asia are at high risk.

The rapid rate of **biodiversity** loss is reducing nature's capacity to be resilient against the pressures of a changing climate. In the Palearctic region where EBRD COOs are located, species population declined at a rate of 31% between 1970 and 2014. According to a 2016 study on biodiversity, countries like Kazakhstan, Mongolia, Morocco and Ukraine show very low levels of intact natural local biodiversity.

Intensive oil and gas development in the Caspian and Black Sea regions resulted in extensive air, water and land pollution, wildlife degradation, exhaustion of natural resources, ecosystem disturbance, desertification and considerable losses in biological diversity. Located in the EBRD region, the Aral[29] has been one of the largest human induced environmental catastrophes of the past century.

[29] 1960: 68,000 km^2 surface, 1,100 km^3 volume and 10 g/l salinity – 2010: 14,000 km^2 surface, 100 km^3 volume and 130 g/l salinity.

The **environmental degradation in the Mediterranean, Black Sea and Atlantic coasts** due to overfishing, untreated waste and real-state overdevelopment in coastal regions represent a major human and environmental threat. Home for over 450 million people and 8% of the world's marine biodiversity, only about two thirds of the urban coastal centres operate a wastewater treatment plant. Moreover, the efficiency of these plants to remove pollutants, including Persistent Organic Pollutants (POPs) and heavy metals, is often low and inadequate. Fishing has quadrupled in the last 50 years, triggering a sharp decline in fishing catches in the last decade. This, combined with the presence of micro-plastics across trophic levels, highlights the need for the development of sustainable blue economy business models to preserve these valuable ecosystems on which millions of families depend for their subsistence.

On **land**, soil fertility is diminishing in many countries due to exploitative land use patterns and the changing climate is disrupting agriculture due to unpredictable weather patterns. Soil erosion levels are particularly high in many COOs. Agriculture is a major cause of decline of organic soils, releasing large quantities of carbon dioxide (CO_2) and nitrous dioxide (N_2O) into the atmosphere. Six COOs are among the highest emitters in the world from organic soil degradation.

Site contamination is a source of toxic pollution and associated public health problems. According to a 2016 study of eight FSU countries, main identified pollutants collectively posed health risks to an estimated 6.2 million people. This is likely to be an underestimation, as existing data captures only a share of total actual contaminated sites. Considering the potential risk of these toxic sites, **environmental remediation** remains of high relevance to the region.

The current average population growth rate of the EBRD region is overall lower than the world average, but countries in SEMED and Central Asia, and Turkey are growing with increased localised density, which increases **environmental stress** with higher energy and resource consumption. Higher localised densities in cities are typically related to higher GDP per capita due to rising productivity. However, expanding cities drive higher GHG emissions and air pollution levels undermining the health and welfare of their population and hampering the ability to reach their full productivity potential. This is exacerbated by frequently **outdated and under-invested municipal infrastructure and services**. In the wake of COVID-19, **health concerns** linked to the urban environment are expected to become a powerful driver of public opinion and an enabler of the political consensus for strong climate action.

The rise of urban population and lifestyle generates increase **municipal and industrial wastes**. Although the composition of waste streams varies across COOs, the share of non-organic wastes like packaging waste or e-wastes tends to be high, with many cities lacking proper waste management systems. Materials that can be reused or recycled are often illegally disposed or landfilled. There is significant room to improve value extraction per material unit through **resource efficiency** and introducing **circularity in material flows** as material consumption is projected to increase in most parts of the world, including the EBRD COOs.

A1.1.2 International and regional environmental treaties and policies

The EBRD COOs are signatories to a range of international environmental treaties. All COOs, except Kosovo, are members to the Basel Convention on the Control of Transboundary

Movements of Hazardous Wastes and their Disposal[30], the Montreal Protocol on Substances that Deplete the Ozone Layer[31], the UN Convention to Combat Desertification[32], the UN Framework Convention on Climate Change[33] and World Heritage Convention[34] and the UNECE Convention on Long-range Transboundary Air Pollution and its Protocols. Most COOs are also members to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)[35], the Convention on the Conservation of Migratory Species of Wild Animals[36], the Ramsar Convention on Wetlands of International Importance[37], the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade[38], and the UN Convention on the Law of the Sea[39].

COOs in the EU are subject to EU environmental legislation, policies and strategy and to the **European Green Deal** which sets out to make Europe the first climate-neutral continent in the world by mid-century. Overall, the EU has one of the highest environmental standards worldwide. The EU and national governments have set out long-term objectives to guide European environment policy with the support of dedicated research programmes, legislation and funding aiming to protect the EU's natural capital and to transition to a resource efficient green economy, while safeguarding its citizens from environment-related pressures and risks to health and wellbeing.

All COOs, except Turkey[40], have ratified the **Paris Agreement** adopted in 2015 at COP21, and have submitted their first NDCs to the UNFCCC. However, the contents of the first round of NDCs has generally been limited.[41] In some cases they do not include any quantifiable GHG emissions reduction targets nor a wide sectoral coverage and measures. Among EBRD COOs, there are exceptions like Morocco, which has an ambitious NDC target. As at May 2020, Slovakia and Ukraine are the only COOs to have submitted a long-term strategy to the UNFCCC to date.[42]

There have been some frontrunners, reflecting climate goals in their national sustainable development policies, and using the development of NDCs and long-term low carbon and climate resilient pathways as a vehicle to mainstream climate and environmental goals into a range of national policies. This includes for example:

- As at February 2020, 11 COOs out of 100 member states participate in the NDC Partnership[43] working towards enhancing their national climate ambition across the economy.

30 Adopted on 22 March 1989 and entered in to force on 5 May 1992.

31 Adopted on 15 September 1987 and entered into force on 1 January 1989.To date, it is the only UN treaty ever that has been ratified by all 197 UN Member States. Since 1989, the Protocol has had nine revisions, the latest revision having taken place in 2016 in Kigali.

32 Adopted on 17 June 1994 and entered into force on 26 December 1996.

33 Adopted on 9 May 1992 and entered into force on 21 March 1994.

34 Adopted on 16 November 1972 and entered into force on 17 December 1975.

35 Adopted on 3 March 1973 and entered into force on 1 July 1975.

36 Adopted on 1 November 1978 and entered into force on 1 November 1983.

37 Adopted on 2 February 1971 and came into force on 21 December 1975.

38 Adopted on 10 September 1998 and entered into force on 24 February 2004.

39 Adopted on 10 December 1982 and entered into force on 16 November 1994.

40 Kosovo is not a party to the UNFCCC.

41 According to the Climate Action Tracker 37 NDCs assessment, Turkey, Ukraine and Kazakhstan's first NDCs fall under critically insufficient to insufficient category i.e. ambition in line with 3°C and above world.

42 https://unfccc.int/process/the-paris-agreement/long-term-strategies

43 NDC Partnership members leverage their resources and expertise to provide countries with the tools they need to implement their NDCs. EBRD COO members include Armenia, Albania, Georgia, Jordan, Kyrgyz Republic, Lebanon, Mongolia, Morocco, Tajikistan, Tunisia, and Ukraine

- The EU has a **regional NDC target**. Member states are required to submit National Energy and Climate Action Plans (NECPs) for the period of 2021-2030 to meet EU energy and climate targets by 2030. As of May 2020, 12 COOs[44] had submitted their National Energy and Climate Plans. It has also implemented the EU Emissions Trading System (EU-ETS) which was set up in 2005 operating in all EU states as well as Iceland, Liechtenstein and Norway. The system is currently in its third phase. The legislative framework of the EU-ETS for its next trading period (phase 4) was revised in early 2018 to enable it to achieve the EU's 2030 emission reduction targets. Under the Green Deal, the Commission will present a plan to increase the EU's 2030 greenhouse gas emission reduction target, including for the EU ETS, and as part of the EU's contribution to the Paris Agreement.[45]
- The Bank supported the development of **national energy efficiency action plans and national renewable energy action plans** in Albania, Georgia , Kazakhstan, Turkey and Uzbekistan.

Under the Convention on Biological Diversity (CBD), the 2011-2020 Aichi Biodiversity Targets[46] set a guiding framework for national commitments on biodiversity with 31 COOs submitting to date their national biodiversity strategies and action plans (NBSAP) or equivalent instruments. As these targets will expire by the end of 2020, the Parties to the CBD are currently in the process of adopting a revised set of targets as part of a post-2020 global biodiversity framework, which will have particular implication on SDG 14 (Life below Water) and SDG 15 (Life on Land).[47]

A1.2 International context

All United Nations Member States adopted the 2030 Agenda for Sustainable Development in 2015 setting 17 **Sustainable Development Goals** (SDGs). The Agenda provides a 'shared blueprint for peace and prosperity for people and planet' and is an urgent call for action by developed and developing countries in a global partnership.

The international context on climate change has rapidly evolved since 187 countries signed up to the Paris Agreement in 2015 with political leaders and international partners, including the MDBs, most recently pledging to deliver and support commitments at the UN Climate Action Summit and at COP25 in the second half of 2019.

The flagship **IPCC Special Report on Global Warming of 1.5°C** published in October 2018 highlighted the scale and urgency of the climate challenge based on extensive scientific work. The report confirmed that since pre-industrial times, human activities have caused approximately 1.0°C of global warming, and that at the current rate average global temperature will rise by a further 1.5°C between 2030 and 2052. In order to limit warming to 1.5°C, CO_2 emissions need to fall by around 45% by 2030 (from 2010 level) and **reach net zero by mid-century**. The report also highlighted the significant difference in impact between warming of 1.5°C and 2.0°C with, for example, 2.6 times more people being exposed to

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44 Bulgaria, Croatia, Cyprus, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

45 https://ec.europa.eu/clima/policies/ets_en

46 1) Address the underlying causes of biodiversity loss by mainstreaming biodiversity across government and society; 2) Reduce the direct pressures on biodiversity and promote sustainable use; 3) To improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity; 4) Enhance the benefits to all from biodiversity and ecosystem services; 5) Enhance implementation through participatory planning, knowledge management and capacity building.

47 WWF, Living Planet 2018 Report, Figure 10: https://s3.amazonaws.com/wwfassets/downloads/lpr2018_summary_report_spreads.pdf; The black line indicates currently observed trends (to 2015), dotted lines show extrapolations from current trends (black) and projections for biodiversity after 2030 that are declining (red), stabilizing (orange) or recovering (green).

extreme heat (from 14% to 37% of global population), the number of ice free Arctic summers occurring on average every 10 years instead of every 100 years, and coral reefs basically extinct in a +2.0°C world.

The findings of the report were followed by a number of observable climate records with record highs reported in 2019. According to the UN World Meteorological Organisation, globally averaged CO2 concentrations reached a record high level of 407.8 parts per million in 2018, levels last seen 3 to 5 million years ago when sea levels were between 10 and 20 metres higher than today. 2019 was also among the three warmest years on record for surface temperature[48], the warmest year on record for ocean heat content with a sharp increase between 2018 and 2019, and a record low in sea ice extent and volume in the Arctic and Antarctic (April to August). Particularly high temperatures were observed in the Arctic, over Antarctica, Australia, Europe, South Africa, and Siberia.[49]

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services released its **Global Assessment Report on Biodiversity and Ecosystem Services** in May 2019 revealing that three-quarters of the land-based environment and about 66% of the marine environment have been significantly altered by humankind. A third of the world's land surface and nearly 75% of freshwater resources are now devoted to crop or livestock production, and a third of marine fish stocks are being harvested at unsustainable levels. The biosphere is also being altered at an unprecedented scale and pace, and the dominant driver is humanity's rapidly growing need for food, energy, water, and materials. In all of the policy scenarios explored in the assessment, negative trends in nature are expected to continue until 2050 and beyond, except in those including transformative change.

The IPCC released in August 2019 its **Special Report on Climate Change and Land** covering desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems, and focused on land as a critical resource for food, water, health and well-being. Growing human pressure and climate change are threatening land sustainability, as well as its ability to act as a sink for GHG emissions. The report called out for early far-reaching action across several fronts, and coordinated action on climate change to simultaneously improve land, food security and nutrition, as land management alone cannot resolve the problem.

This was followed by an IPCC **Special Report on The Ocean and Cryosphere in a Changing Climate**, bringing to international attention that sea-level rise will continue for centuries even if GHG emissions are significantly reduced and global warming is limited well-below 2°C. However, if GHG emissions continue to grow according to the business-as-usual scenario i.e. high-emissions pathway (RCP 8.5) sea levels are projected to rise by 61 to 110cm by 2100 relative to 1986–2005, rather than 30 to 60cm under the below 2°C scenario. The oceans take up 20 to 30% of human induced CO2 emissions annually, resulting in acidification and degradation in marine life abundance and distribution. Oceans already absorb up to 90% of excess heat in the climate system, and if global temperature rises by over 2°C, the amount of heat would be 5 to 7 times higher than during the past half-century. This would have a devastating impact on marine life with heat absorption limiting oxygen supply and nutrients.

[48] Records from NASA, NOAA, Berkeley Earth, Cowtan and Way, JMA, JRA-55, NCEP and Copernicus ERA5 all showed 2019 as the second warmest year after 2016, while the Met Office Hadley Centre/UEA HadCRUT4 record had 2019 as the third warmest on record.

[49] 2019 was the hottest year since instrumental records began in the 36 countries including following EBRD COOs: Belarus, Bulgaria, Hungary, Latvia, Lithuania, Moldova, Poland, Serbia, Slovakia, and Ukraine.

The **UN Emissions Gap 2019 Report**, released in November 2019, warned against relying on current climate commitments of the Paris Agreement which are projected to lead to a temperature rise of 3.2°C at 66% probability by 2100. Collectively, policies and actions need to deliver year on year emissions reductions of -7.6% between 2020 and 2030 to limit global warming to 1.5°C. Any delay from this path would result in requiring steeper and more difficult emissions reduction thereafter to avoid massive climate change impacts.

At the September **2019 UN Climate Action Summit** in New York[50], many governments and business leaders came together to announce their commitments to accelerate climate action. 70 countries committed to deliver more ambitious national climate plans in 2020 in line with net zero emissions by 2050 strategies. 75 countries committed to deliver 2050 net zero emissions strategies by 2020. A group of the largest global asset owners committed to move to carbon-neutral investment portfolios by 2050 and 87 major companies with a combined market capitalisation of over USD 2.3 trillion pledged to reduce emissions and align their businesses with a 1.5°C future. In addition, 130 banks, comprising one-third of the global banking sector, signed up to align their businesses with the Paris Agreement goals.

The MDBs released a joint statement with 2025 goals to: (i) increase their climate finance level to USD 65 billion by 2025; (ii) double adaptation finance to USD 18 billion; (iii) collectively mobilising USD 40 billion of climate investments annually from private sector investors; and (iv) helping their clients deliver on the goals of the Paris Agreement[51]. These goals were reaffirmed at COP25 in Madrid.

The European Commission launched its flagship **European Green Deal**[52] at COP25 providing a roadmap with actions to boost the efficient use of resources by moving to a clean circular economy, restore biodiversity and reduce pollution. The European Green Deal outlines investments needed and available financing tools. To ensure a just and inclusive transition, it also announced the set-up of a Just Transition Mechanism to mobilise at least €100 billion over the period 2021-2027 for the most affected regions. Subsequently, the EU has adopted the European Industrial Strategy, developed a blue economy strategy and is currently working towards adopting a European climate law, a Circular Economy Action Plan, a 'Farm to fork strategy,' and an EU Biodiversity Strategy for 2030.

The Network of Central banks and Supervisors for Greening the Financial System (**NGFS**), was launched in December 2017[53] and consisted of 55 members across the world as at February 2020, including the central and national banks of Georgia, Greece, Hungary, Morocco, Slovak Republic and Tunisia.

The **Coalition of Finance Ministers for Climate Action** was launched in April 2019 recognising the important role of finance ministries in addressing the climate change challenge and committing to collectively engage on the issues. To date, 50 finance ministers have signed on to the 'Helsinki Principles' which are six aspirational principles promoting, for example, the role of fiscal policy and public finance in national climate actions which Cyprus, Greece, Latvia, Lithuania and Poland have endorsed.

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50 https://www.un.org/en/climatechange/un-climate-summit-2019.shtml

51 https://www.ebrd.com/news/2019/-mdbs-pledge-to-join-forces-to-raise-annual-climate-finance-to-175-bn-by-2025.html

52 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

53 https://www.banque-france.fr/en/communique-de-presse/joint-statement-founding-members-central-banks-and-supervisors-network-greening-financial-system-one

Responding to the global climate and environmental crisis, several milestone events are envisaged to call for enhanced action and shape the global agenda including:

- The **75th session of the UN General Assembly**, running in parallel with the **UN Biodiversity Summit**, aims to bring world leaders together to declare planetary emergency and urge immediate action to restore nature in view of a post-2020 global biodiversity framework.
- **2020 UN Biodiversity Conference (COP15)** to consider the adoption of a new 10 year global biodiversity framework or 'New Deal for Nature' aiming to reverse the sharp loss of nature by 2030 within an implementation mechanism, and pave the way towards a 2050 vision of the Convention on Biological Diversity.
- The **UN Ocean Conference** aims to adopt an intergovernmental declaration on science-based and innovative areas of action to support the implementation of SDG 14 (Life below Water).
- The **26th Conference of Parties (COP26)**, initially scheduled in Glasgow in November 2020, aims to have countries present more ambitious national plans on climate in line with the Paris Agreement goals and to develop the financing frame to accelerate climate action including enhanced MDB contribution and the mobilisation of private finance at scale.

GET 1.0 TRACK RECORD

The **Green Economy Transition Approach** (**GET 1.0**) was approved by the Board in September 2015 (BDS15-196 (Final)) to scale up the transition impact and environmental financing activity of the EBRD over the period from 2016 to 2020. GET1.0 aimed to increase the Bank's green financing to 40% of annual investments by 2020 with increased activity driven by:

- a ramp up energy and resource efficiency, and renewable energy recognising the importance of scale;
- enhanced innovation in areas such as technology transfer and irrigation;
- broadening the environmental dimension (e.g. water supply and resilience, environmental remediation); and
- active use of public and private channels of transition impact (e.g. energy efficiency for public buildings and GEFF expansion to residential energy efficiency).

A2.1 Policy framework

A2.1.1 EBRD and environmental and social sustainability

The promotion of environmentally sound investments, policy and technical cooperation, and sustainable development in the full range of its activities is intrinsic to the Bank's mandate from its founding agreement. Elements congruent with the Green Economy are already embedded in the Bank's constitutive documents and operations, including the Agreement Establishing the Bank (AEB), the **Environmental and Social Policy (ESP**) and the Green Economy Transition (GET) approach.

In accordance with this fundamental focus on sustainability, EBRD has structured all its projects to meet high environmental and social criteria and standards, with rare exceptions requiring derogation of specific criteria.

The latest 2019 ESP[54] contains a comprehensive and appropriate environmental and social risk management framework. The ESP establishes environmental and social standards to be met by each project financed by EBRD, addresses human well-being, social inclusion and equitable distribution of costs and sharing of benefits into projects. The ESP:

- acknowledges that environmental and social sustainability is a fundamental aspect of achieving outcomes consistent with the Bank's transition mandate;
- provides a sound platform for projects and activities that foster environmental and social sustainability; and
- sets a strategic goal to promote projects with high environmental and social benefits, and tackle climate change and environmental degradation.

[54] EBRD's latest (2019) ESP available at: https://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html

In line with its sustainability mandate and the ESP, the Bank developed advanced operational approaches to scale-up its sustainable energy activities under the **Sustainable Energy Initiative** (SEI in 2006), its activities in water and materials efficiency under its **Sustainable Resource Initiative** (SRI in 2013) and overall green economy initiatives that foster environmental investments under GET (2015). The Bank introduced environmental and social sustainability goals in its sector strategies, including the Energy, Municipal, Property and Tourism, and Transport Infrastructure strategies.

The Bank has also been very active in supporting the development of green capital markets. This has been achieved by issuing green bonds, crowding-in investors for our clients and collaborating in shaping international standards, such as the Green Bond Principles (GBP). The Bank has also increased its activities in enhancing **Environmental, Social and Governance** (ESG) standards across its clients, and in stock exchanges across its COOs.

The EBRD approach to ESG

The Bank's ESG approach builds on robust ESG criteria applied to all of its investment projects, and comprises **ESG integration and risk management, communication and reporting**. The key documents that establish EBRD's ESG risk management criteria include the ESP and various integrity and governance policies and guidelines (*e.g.*, the Enforcement Policy and Procedures). The ESG risks are managed through compliance with ESG criteria set out in these policies, accompanied by a broad range of operational guidelines and toolkits (such as the Corporate Governance Toolkit) for the risk assessment process from due diligence screening to assessment protocols. As a signatory to the UN Principles for Responsible Investment and a supporter of the Climate-related Financial Disclosure (TCFD), the EBRD is reports on ESG integration and climate risk governance, management and exposure under these initiatives. Effective implementation of the ESG approach requires collaboration across the Bank, including ESD, OCCO, OGC / LTT, Risk, Banking/E2C2 Treasury, LC2, EPG and GEI.

The Bank's comprehensive ESG approach supports Impact Investing, Global Reporting Initiative, green bond issuance, and ESG/Sustainability ratings. It also provides a sound platform for the Bank's strategies and targets that aim at supporting projects resulting in positive ESG impacts. The GET approach is the most significant of these, followed by gender and economic inclusion, and others. Good ESG performance is also recognised in EBRD's six transition qualities that measure EBRD's transition impact. Sustainability and ESG considerations are also integrated into all EBRD country and sector strategies.

The formulation of a new GET approach should acknowledge the links between decarbonisation of the economy, building adaptation and resilience to climate change, preserving our common environmental assets and promoting a just and inclusive green transition. In addition, the effective and transparent governance of public and private organisations plays a fundamental role in ensuring the integration of environmental and social considerations in the decision-making process. A similar approach has been adopted by the EU in the European Green Deal as well as in the EU Taxonomy. *Do no harm* and prevention from adverse environmental impact are imperatives and integral part of the EBRD's mandate and ESP.

Through its in-house expertise, the Bank can provide support to clients and other stakeholders in further enhancing its ESG policies, including climate governance and risk disclosure, in line with emerging standards and good industry practices. This may be achieved by leveraging on technology and innovation to help our clients streamline procedures and

achieve best standards with minimum efforts and significant business opportunities. Through its environmental and social due diligence and its **Performance Requirements (PRs)**, which describe *How* the Bank achieves its goals[55], the Bank is in a strong position to enhance these ESG principles. These also allow to identify new opportunities and to develop green products to achieve a transformational effect. In that sense, EBRD PRs are directly correlated with multiple SDGs, as presented in Figure A2.1.

SDGs summarise an urgent call for global action to end poverty and inequalities, and increase living standards for all citizens while preserving our common natural wealth. In line with this, the EBRD PRs are designed to promote good environmental and social practice in our projects, and to serve as a base to clients to improve the sustainability of their business operations, aligning those with the SDGs. This is reflected by the strong correlation between SDGs and PRs reflected in Figure A2.1.

Figure A2.1: SDGs and Performance Requirements

A2.1.2 Environmental action and transition impact

The green economy continues to be of central importance, reflecting both the context of individual COOs, as well as the attention given to environmental sustainability at international level, leading to the adoption of the Sustainable Development Goals, the Paris Agreement and policies such as the EU's Green Deal. In addition to climate change issues, there is increasing priority given to address air quality, water pollution and water scarcity, biodiversity, waste management and the circular economy.[10]

The EBRD is well known for its pioneering work in scaling-up green financing and for its ability to work with the private sector in this area. The EBRD is also recognised for linking its strong operational delivery capacity with the promotion of local and national regulations that put climate change and environmental considerations at the heart of the economic process (e.g. through water and energy tariff reforms, renewable energy auctions, phase out of fossil fuel subsidies). **Modern and well-functioning market economies incorporate climate change and**

[55] As opposed to the Transition Impact Qualities – which describe *What* the Bank's objectives are.

environmental considerations in decision-making processes and turn them into a driver for growth and competitiveness. The promotion of environmentally sound and sustainable development therefore goes hand in hand with other aspects of the transition process.

Beyond the overarching environmental policy framework outlined in section A2.1.1, the Bank has developed and implemented over the years a specific approach to reflect the **transition impact of green projects**. Climate change mitigation, climate change resilience and wider environmental considerations now underpin the Bank's operations. This strategic orientation is visible in specific initiatives and the selection of key priorities for sector and country strategies.

There are a number of key transition challenges in moving towards an environmentally friendly and low carbon economy and the Bank's framework for transition impact assessment includes 'Green' as one of its six transition impact qualities, which are used to assess how its investment projects bring about systemic change. The application of the Green quality to project assessment recognises the importance of expanding green capital expenditures, achieving ambitious environmental outcomes, supporting policy reform, as well as innovation in project design and business models.

A2.2 GET 1.0 delivery

In the run-up to COP21 and the Paris Agreement, the EBRD set an ambitious target for its Green Economy Transition approach (GET1.0) to achieve a 40% GET ratio of its total investment volume by 2020. This represented a significant step-up considering that the average green finance ratio in the preceding five year period had been 28%. To achieve this target, the Bank raised its annual GET target ratio by +2% each year from 32% for 2016 up to 40% for 2020.

As shown in Figure A2.2, the Bank managed to **remain at or above the target GET ratio path for each year between 2016 and 2019**. Furthermore the Bank exceeded the 40% target set for 2020 twice during this period achieving a GET ratio of 43% in 2017 and 46% in 2019. This resulted in an average GET ratio over these four years of 40% reflecting an overall strong performance of the Bank in this area.

Figure A2.2: GET1.0 target and actual ratio 2016-2019

Cumulative GET ABI for the period 2016 to 2019 reached €15.0 billion, **up 42%** compared to €10.5 billion in the previous four year period from 2012 to 2015 while the number of projects increased by 32% to 820. This volume of activity is equivalent in four years to the cumulative green finance of the EBRD in the 9-year period from 2006 to 2014. Climate finance accounted for 94% of overall GET finance including projects with other environmental co-benefits. In line with the Bank's operating model, the average private sector share of GET finance was 59%.

Table A2.1: GET1.0 ABI and private sector share 2016-2019

	2016	2017	2018	2019	2016-2019
GET ABI (€ million)	2,942	4,054	3,344	4,618	14,958
Private sector share	72%	52%	51%	62%	59%

Donors and the availability of external funds have played a key role in the results achieved by the Bank under GET1.0. These funds have been essential to creating enabling business environments, accelerating the development of markets for new technologies and catalysing investments by mitigating risks and alleviating challenging market barriers by supporting investment co-financing, policy dialogue, technical analysis, project preparation and implementation, and capacity-building activities. Reflecting the priority of the GET-related topics in donor strategies, significant support has been received from global climate funds, the EU, bilateral donors and the EBRD Shareholder Special Fund as described in section 3.5.

In line with its overall objectives, GET1.0 pursued the development of both climate finance and activities with other environmental objectives. Table A2.2 provides information on the development of these two components of GET activity showing growth in both climate finance and other environmental finance. Total GET finance reflects the netting out of environmental finance with climate co-benefits to avoid double counting and overstating overall GET finance. Accordingly, the **average share of environmental finance including projects with climate co-benefits has been 18%** during the period 2016 to 2019 rising from 1.3% in 2016 to 25% in 2019.

Table A2.2: GET finance (€ million) 2016-2019

	2016	2017	2018	2019	total
Climate finance	2,940	3,817	3,121	4,203	14,081
Other environmental finance	39	585	940	1145	2,709
GET finance	**2,942**	**4,054**	**3,344**	**4,618**	**14,958**

In many cases, GET finance supported projects or project components with both climate and other environmental benefits. This included, for example, the project with Işık Tarım Ürünleri A.Ş (2019), a leading organic dried fruits and nuts producer in Turkey, with proceeds used to finance sustainable land management practices (contribution to biodiversity) and energy/resource efficiency components with substantial GHG emissions reduction.

These GET financing results were achieved through the **continuing mainstreaming of GET activity across sectors, countries and regions of operations** reflected in the rise of the GET ratio across all sectors between 2015 and 2019 except in the energy sector where the GET ratio remained constant at a very high level of 86%. Over the GET1.0 period from 2016 to

2019, the average GET ratio was above two-thirds in the energy and MEI sectors, around one third in three sectors and around a quarter in remaining sectors.

From a regional perspective, the coverage of GET activities has been well distributed and quite in line with the overall distribution of the Bank's ABI. Over the period from 2016 to 2019 the regional distribution of GET ABI was:

- 21% in SEMED, 19% in Turkey and 17% in Eastern Europe and the Caucasus;
- 13% each in South Eastern Europe and in Central Europe and the Baltics, and 12% in Central Asia; and
- the remaining part of GET ABI was in Greece and Cyprus, and in regional projects.

From a sectoral perspective, activities were also well distributed across key activity areas over the period 2016 to 2019 with:

- energy efficiency projects accounting for 29%;
- municipal and environmental infrastructure projects for 22%;
- Green Economy Financing Facilities through financial institutions for 18%; and
- renewable energy for 17% and cleaner energy production for 13%.

From a regional perspective, the GET ratio also increased in all regions except in Turkey where the GET ratio remained at a high level of 47% in both 2015 and 2019. The GET ratio doubled in South-Eastern Europe from 24% to 48% and reached 52% in Eastern Europe and the Caucasus in 2019. Over the GET1.0 period from 2016 to 2019, the average GET ratio was highest in Turkey at 52% with remaining regions around 40% and above except South-Eastern Europe at 32%, and Cyprus, and Greece at 19%.

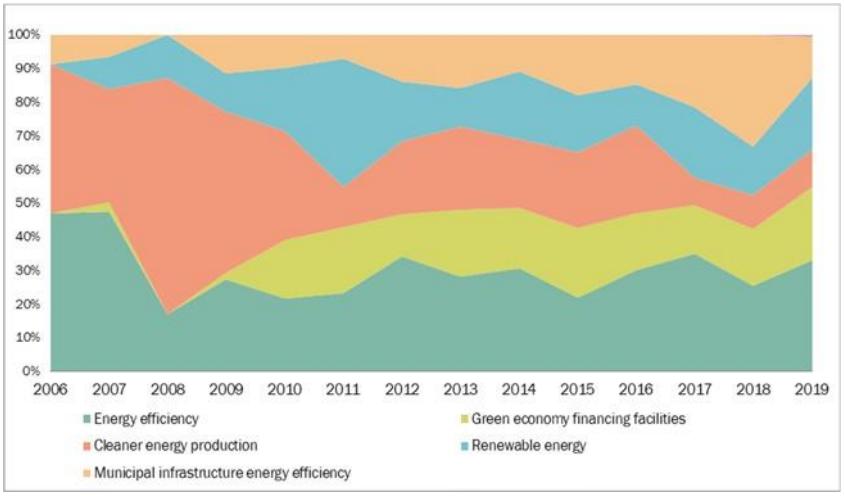
From an individual country perspective, the average GET ratio over the period 2016 to 2019 was above 40% in 14 countries, between 20% and 40% in 16 countries, and below 20% in 6 countries. The GET ratio increased across a broad range of countries from small to large. For example, the GET ratio increased from 25% in 2016 to 88% in 2019 in Kosovo while rising from 39% to 62% in Ukraine.

Beyond these operational results in the COOs, the implementation of GET1.0 involved the development of a broad range of policy activities and GET-related activities both within the Bank and in the COOs. These include the growth of EBRD funding through **green bonds**, the assessment of the **green transition quality** ATQs, the development of the **GET TI rating methodology**, the introduction of economic assessment incorporating a **shadow price of carbon**, policy engagements, the formulation of the **GET Handbook** and the establishment of the **GET Clearinghouse**, an initial assessment of **climate-related financial risks** across the portfolio, enhanced GET-related **communications activities** and the enhancement of **internal green practices**.

Cumulative GHG emissions reduction from GET1.0 projects during the period 2016-2019 is estimated in excess of **23 million tonnes CO_{2eq}/year** with annual reduction ranging between 4.8 million in 2019 and 7.1 million in 2018. This cumulative reduction is equivalent to the annual GHG emissions of Bosnia Herzegovina or Tunisia. Since the start of SEI in 2006, cumulative GHG emission reductions from EBRD climate finance are estimated on an ex-ante basis at **103 million tonnes CO_{2eq}/year**, equivalent to the combined annual emissions of Bulgaria, Croatia and Serbia.

Variations in the level of GHG emission reductions achieved across years reflect both the level and composition of GET activity (see Figure A2.3). Main factors driving these variations include: (i) reduced investments in large fossil fuel energy supply projects where significant GHG emission savings were realised (on average, 50% of annual GHG emission savings during the pre-GET period); (ii) expansion of GET delivery beyond climate mitigation projects (e.g. climate adaptation finance which reached 12% of total EBRD climate finance in 2019); (iii) increasing focus on green markets creation in buildings energy efficiency, Green Economy Financing Facilities and green cities projects; (iv) geographical composition of the GET portfolio; and (iv) evolving and increasingly more conservative baselines and standards used for GHG assessments (e.g. grid emission factors).

Figure A2.3: GET climate finance by activity



The above results have allowed the Bank to remain carbon negative over the GET1.0 period as reported in successive EBRD Sustainability Reports. Cumulatively, the carbon balance between projects with net positive emissions and carbon emissions reduction projects is estimated at a negative 11,2 million tonnes CO2.

While operational results achieved during GET1.0 were overall strong, lessons have been learned over this period in terms of areas which deserve further attention and development considering the scope and size of GET activity. These are described in section A2.3 providing an important and relevant input to the formulation of GET2.1.

A2.3 GET 1.0 lessons learned

The main lessons learned arising from GET1.0 implementation to date, both in terms of successful areas and areas for improvement, cover the following six areas examined in this section:

- individual project approach;
- policy and market creation;
- business tools;
- mobilisation;
- methodologies, data quality, systems and governance; and
- partnerships and knowledge sharing.

These lessons arise from both operational experience and the work of EvD and Internal Audit on GET related activity.

Lesson 1: The further scaling-up of GET finance requires an evolution to a more systemic approach to increase scale of impact, foster innovation and enhance visibility. This lesson is reflected in the core concept of the new GET approach described in section 2.1. In particular, the formulation of green transition acceleration thematic areas (see sections 2.5) reflects the relevance of low-carbon pathways and country climate plans, including NDCs, and structures the Bank's activity to make use of these external reference points to pursue project investments. Section 2.5.3 assesses the relevance of each thematic area for each region together with transition business opportunity in line with the Bank's operating principles. This approach builds on a key recommendation from the EvD Special Study on Climate Initiatives (SS18-115) to "strengthen and clarify the broader strategic context and objectives of the climate related components of GET" in order to optimise the impact of the Bank's project investment.

Lesson 2: Market creation through investment-linked policy engagement can be a strong driver of new business opportunities but there needs to be better prioritisation of climate related policy activities and their monitoring and implementation. The strengthening of policy and regulatory frameworks is critical for creating an enabling environment for private investment. As mobilising private sector in support of the green economy transition is critical to achieve scale (see section 3.2 on mobilisation), governments must put in place stable policy and regulatory regimes that incentivise environmental improvements and send long-term signals to the private sector. Work with governments across the region under GET1.0 has contributed to create regulatory environments that promote investments in key areas such as green buildings, renewable energy and green cities.

This work will require a more thorough focus on country commitments to climate change and other environmental activity in order to establish priorities. Improved country engagement and strategy setting is needed to ensure the pursuit of policy reform that improves investment climate and alignment with environmental objectives. This is particularly important for climate change, given that many NDCs are not comprehensive or ambitious enough and these shortcomings must be addressed. There will also be a need to enhance the implementation of policy recommendations and their consequent effectiveness with a focus on implementation support and follow up evaluation.

This work will build on some early activity on policy engagement with the private sector and industry associations, with the first low carbon and resilient sector pathways started for the cement industry in Egypt and for the energy sector in Uzbekistan.

Lesson 3: The development and use of specific business tools, such as the EBRD Technology Selector, have been effective to enhance innovation by both boosting and responding to demand for climate-friendly technologies and accelerating delivery of green finance. Initially developed to support Green Economy Financing Facilities by helping translate technical criteria into easily identifiable technologies, the Technology Selector is an on-line shopping style platform that lists 'best-in-class' green technologies that improve energy efficiency for businesses and households. The tool has been continuously developing to include new countries and categories of investment and is now available to use across 24 countries. Its deployment and application will progressively expand in support of other GET business products such as the Finance and Technology Transfer Centre for Climate Change (FINTECC) which is designed to introduce new specific technologies into markets.

Lesson 4: Relationships with development and environmental finance providers (EU, CIF, GCF, E5P) and bi-lateral donors have played a key role in the opening of new climate finance opportunities and in supporting the design, structuring and deployment of climate finance products. The partnership between the EBRD with sources of concessional climate funding has been effective in developing and proving environmental finance products in new markets by overcoming risks and market barriers, complete funding plans and drive change. Examples include:

- Accelerating the renewable energy market in countries like Egypt by filling a funding gap and addressing low market penetration of technologies across many countries.
- In Kazakhstan, early work on capacity building in the renewable sector with bi-lateral donors (including Japan), combined with small scale co-financing from the CIF, set the basis to scale up with the larger co-financing from the GCF.
- In Tajikistan, where introducing long-term climate resilience into investments avoids performance and credit issues in the future, early market assessment (funded by Austria) with co-financing from the CIF raised awareness of these issues, mobilised additional funding and in partnership with the International Hydropower Association , put in place a set of guidelines for resilience that is being widely used internationally.
- The development of the GEFF product to address the challenge of aggregating small energy and resource efficiency projects in partnership with more than 12 bi-lateral donors, EU instruments and climate finance.

Relationships with these sources will remain important in implementing a number of activities under GET2.1 such as scaling up the Green Cities programme to reach 100 cities, and scaling up energy efficiency in buildings.

It is recognised that climate and donor finance needs to be used to support systemic change and designed to avoid market distortions. The Bank has extensive experience in the use of environmental finance for technical assistance, policy dialogue, grants and concessional co-finance and other instruments, using tailored approaches. Structuring will continue to depend on the stage of market development and sector-specific transition gaps and be aimed at accelerating environmental technology transfer, promoting higher standards, de-risking transactions and facilitating investors' access to finance. Further information on the use of concessional blended finance (CBF) is provided in section 3.2.

Lesson 5: There is a need to improve and clearly define the methodologies, data quality, systems and governance of the GET finance attribution process and environmental impact measurement, including changes to the GET Clearing House (CH) process. This lesson learned takes account of the increased scale of GET activity, changing standards, the external growing interest in green issues, the demand for verifiable results and the work of EvD and IA.

Following the launch of GET1.0, the GET Clearing House (CH), chaired by ESD and using the GET Handbook, has been the key element to specify and apply the methodology for GET project finance attribution and impact. This approach on the joint MDB methodology relies on an internal methodology and governance and requires further interpretation in the context of specific project features. It will be good to move towards the use of external accredited methodologies to support an efficient process for their independent review and verification (see section 5.3 for further details).

It is in this context that the work done by EvD and Internal Audit identified issues with respect to the current approach to assessment, monitoring and ex-post verification of GET investments.

Key considerations which will be addressed as part of GET2.1 include:

- The Clearing House and the Handbook should evolve to reflect a more robust governance and external developments including emerging taxonomies and a sharper focus on meeting the goals of the Paris Agreement. This will also require a functional separation between Banking and ESD on verification.
- The increase in the number of GET projects and business volume has not been accompanied with the necessary system improvements. While there have been specific improvements in certain areas, the use of existing systems to capture data and provide input to reporting has led to some issues affecting data governance and the integrity of reporting.
- There has also been a continued approach under GET1.0 to focus on ex-ante project assessment without fully reflecting material changes in project implementation and ex-post Monitoring, Reporting and Verification (MRV).

Some actions have already been taken to address some of the identified issues including:

- Improved governance on GET and cross cutting climate activity with the set-up of the Climate Action Network (CAN) including MDs from departments active in the development and implementation of GET-related activity. The CAN has been operational since Q3 2019.
- Both the EvD Special Study on Climate Initiatives and the Internal Audit Report highlighted the need for better systems, improved data processes and controls and enhanced ex-post monitoring. Accordingly a Climate Data Working Group (CDWG) under CAN has been established and has started to work on harmonising and streamlining climate related data cross the Bank. CDWG will focus on identifying data gaps and data improvement requirements and the gap analysis will lead to a set of recommendations for Management to consider in relation to system enhancements and process changes.
- Banking and ESD are working on a cost-benefit scenario analysis for an enhanced post-signing monitoring and verification procedure. Incremental enhancements to post-signing activities will likely require additional resources, IT systems and funding to cover the costs of verification, and this work will need to be considered in the context of additional monitoring requirements for clients and the business implications, as well as resources and IT systems development.

Lesson 6: Knowledge sharing through partnerships and networks can help scale up GET finance The Bank has shown that its GET business model is effective in scaling up financing and is in a position to share experience and tools with others to drive climate action and scaling-up finance. Engagement through targeted external partnerships is an effective means of sharing expertise and knowledge (analytical methodologies and tools for assessing climate risks, insights, lessons learned and best practices), enabling the Bank to reach, influence and mobilise climate action by a large number of recipients. External partnerships such as the Climate Action in Financial Institutions Initiative and the green city mayors network are good

examples. The establishment of the internal GET Ambassadors network has identified and conducted capacity building with bankers in ROs to mainstream GET further into country operations and policy dialogue.