



# Policy Paper: Paris Alignment

OeEB as a green development bank: Our focus on climate.

13.11.2024

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# 1. Our goals

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As a green development bank, OeEB is committed to playing a pioneering role in mitigating climate change and adapting to its unavoidable effects. The Bank's alignment with the objectives of the Paris Agreement covers various aspects, which are detailed in this document:

1. **Review of all new business activities as regards their compatibility with the objectives of the Paris Agreement from 1 January 2025:** OeEB will review and assess the orientation of any new business, i.e. direct and indirect investments, as to its compatibility with the objectives of the Paris Agreement at the project level.
2. **Achieving our net-zero target by 2040:** In its strategy for the period 2024-2028, OeEB already set itself the ambitious goal of reducing greenhouse gas emissions in line with the 1.5-degree target specified in the Paris Agreement and achieving a climate-neutral portfolio by 2040. The achievement of this goal is a central component of OeEB's business model as a "green" development bank.
3. **Making an ambitious contribution to international climate finance<sup>1</sup>:** OeEB contributed around EUR 900 million to international climate finance during its last strategy period. It will continue to make particular efforts to support its clients in this regard during the coming strategy period. Over the period 2024-2028, at least 50% of OeEB's new business will be attributable to climate-eligible investments.
4. **Leading the way in strategic discussions on climate at EDFI level<sup>2</sup> and supporting customers in their own transition process:** As a pioneer in its field, OeEB is increasingly committed to advancing climate ambitions within the EDFIs. We proactively and constructively support our customers in developing or implementing their own net zero transition strategies or plans.
5. **Climate-friendly alignment of internal processes:** OeEB is committed to ensuring that internal processes such as building management, events, business trips, etc. are organised and carried out in a low-carbon way.

Important successes have already been achieved in all these areas and are now being built upon.

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<sup>1</sup> in the period from 2019 to 2023; provisional figure for 2023; includes mobilised climate financing.

<sup>2</sup> EDFI - European Development Finance Institutions

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## 2. Our path to Paris alignment

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### 1. Assessment of all new business activities as regards their compatibility with the objectives of the Paris Agreement from 1 January 2025

From 1 January 2025, OeEB will review and assess the alignment of any new business with the objectives of the Paris Agreement at project level.

This assessment will be carried out internally at OeEB by the department responsible for environmental and social auditing in coordination with the department responsible for risk assessment. The results are documented in writing in a way which is easy to understand. They will also be submitted to the relevant stakeholders for presentation to the decision-making bodies in the respective project sheets and thus serve as a building block for decision-making.

The methodological approaches for direct and indirect investments are explained below:

#### Direct investments:

(1) The project check concludes that a project is "**automatically aligned**".

These projects will be continued.

Essentially, these projects include the activities listed in Annex 1 of the *BB1 and BB2 Technical Note - Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations*<sup>3</sup>. They are consistent with the climate change mitigation goals specified in the Paris Agreement and cover projects in the areas of wind power, photovoltaics and telecommunications.

This also includes all activities that are considered climate finance in accordance with the *MDB/IDFC Common Principles for Climate Mitigation Tracking*<sup>4</sup>. Greenhouse gases (GHG) are avoided, reduced or stored through negative or low-carbon activities, transition activities<sup>5</sup> or enabling activities<sup>6</sup>.

In any case, all such activities must be in line with the climate change adaptation goals of the Paris Agreement. This is assessed based on an analysis of project-specific physical climate risks.

In terms of a "Do No Significant Harm" test, these activities must also comply with the IFC Performance Standards and the OeEB Human Rights Policy.

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<sup>3</sup> <https://www.eib.org/attachments/documents/cop26-mdb-paris-alignment-note-en.pdf> November 2021 (Annex 1)

<sup>4</sup> see [https://www.eib.org/attachments/documents/mdb\\_idfc\\_mitigation\\_common\\_principles\\_en.pdf](https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf) revised version of 5 December 2023

<sup>5</sup> Transition activities still cause GHG, but contribute to the transition to a low-carbon economy (e.g. energy efficiency improvements in industrial plants)

<sup>6</sup> Enabling activities indirectly make a substantial contribution to the avoidance or reduction of GHGs (e.g. the production of PV systems).

(2) The project check concludes that a project is "**automatically misaligned**".

These projects will not be continued.

OeEB adheres to the harmonised list of EDFIs for the exclusion of projects related to fossil fuels<sup>7</sup>. Upstream and midstream projects in the natural gas sector will also be rejected, in line with the existing energy sector strategies of most International Financial Institutions (IFIs). Downstream activities are considered on a case-by-case basis in low- and middle-income countries (see point 3 below) and can be seen as transition technologies in exceptional cases, provided they are in line with national climate action plans, Nationally Determined Contributions (NDCs) and long-term climate and decarbonisation strategies. In modernisation projects, care should be taken to ensure that an overall reduction in original emissions is achieved and that no lock-in effects occur. Avoiding the risk of stranded assets is also essential in this context.

(3) The project check concludes that a project is "**conditionally aligned**".

These projects will only be continued subject to the successful completion of a detailed review.

The assessment is generally based on the *Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations - Direct Investment Lending Operations*<sup>8</sup>, which require the activities to be compatible with the climate change mitigation and adaptation goals specified in the Paris Agreement. Recognised sector-specific guidelines (e.g. for projects in the areas of agriculture, industry or transport) are applied where relevant.

The climate change adaptation goals are assessed based on an analysis of project-specific climate risks. In the sense of a "Do No Significant Harm" test, these activities must also comply with the IFC Performance Standards and the OeEB Human Rights Policy<sup>9</sup>.

#### **Indirect investments:**

Projects where investments are made through financial intermediaries, such as banks, are generally assessed based on the *Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations - Indirect Investment Lending Operations*<sup>10</sup>, supplemented by "best practice" approaches as developed in EDFI working groups.

If the purpose for which the funds will be used is known ("*earmarked loans*"), transactions are examined according to the criteria for direct investments.

In the case of *general-purpose loans*, the exposure of the portfolio is analysed with regard to the economic sectors which cause the greatest amount of emissions. Depending on the result, financial intermediaries must commit to developing a climate strategy in line with the climate change mitigation goals of the Paris

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<sup>7</sup> see <https://edfi-website-v1.s3.fr-par.scw.cloud/uploads/2021/02/EDFI-Fossil-Fuel-Exclusion-List-October-2020.pdf>

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<https://documents1.worldbank.org/curated/en/099146306162392732/pdf/IDU0562589c907e1f047980b1b50e63bf0f19447.pdf>

<sup>9</sup> see OeEB Human Rights Policy.

<sup>10</sup> siehe <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099153206162328669/idu0c77fadd6076d30433709a4b07b34a68508b2>

Agreement. In addition, they must establish and operate a climate-related risk management system (if not already in place) to take account of climate change adaptation. OeEB will provide technical assistance funds for these transition processes on a regular basis as part of its structured dialogue with customers.

In terms of a "Do No Significant Harm" test, all indirect investments must also comply with the IFC Performance Standards and the OeEB Human Rights Policy.

## 2. Achieving our net zero target by 2040

As part of its strategy, OeEB is committed to achieving net-zero greenhouse gas emissions at portfolio level by 2040.

OeEB will set out the associated methodological details in a net-zero transition plan, the principles of which will be published on its website. This includes the reporting of modelled greenhouse gases, outlining a net-zero pathway in line with climate science, taking measures to reduce the GHG intensity of the portfolio, considering how to neutralise remaining greenhouse gases, and defining internal responsibilities and associated resources. This plan will be submitted to stakeholders for comment by the end of 2025 at the latest. The aim is to implement this plan from 1 January 2026. The plan will also include a brief description of OeEB's internal implementation steps, and the issue of setting interim targets for the period up to 2040 will be addressed in the mid-term review of OeEB's 2024-2028 strategy.

As part of preparing the transition plan, OeEB will determine its portfolio-level greenhouse gas emissions using the currently available GHG data and based on internationally recognised methods<sup>11</sup>. By working together with its customers, OeEB will gradually improve the quality of GHG data and improve the management of portfolio emissions.

## 3. Making an ambitious contribution to international climate financing

OeEB is a major contributor in the Republic of Austria to international climate finance in developing countries and emerging economies. During its last strategy period, OeEB invested around EUR 900 million in climate-eligible projects. For the current strategy period from 2024 to 2028, OeEB increased its strategic target for climate finance in new business to an average of 50%.

In addition to investments in renewable energies, energy efficiency or clean mobility, the strengthening of carbon sinks, such as the restoration of climate-friendly mixed forests, sustainable management and restoration of arable and green areas, taking biodiversity into account, as well as the renaturation and conservation of wetlands or other technology options, can play an increasingly important role in storing GHGs.

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<sup>11</sup> For example, the PCAF (Partnership for Carbon Accounting Financials) standard.

## 4. Playing a pioneering role in strategic discussions on climate at EDFI level and supporting customers in their own transition process

As a member of the European Development Finance Institutions (EDFI) network, OeEB will continue to participate in regular meetings of climate experts and thus actively promote the high level of ambition at EDFI level. In this context, OeEB will intensify its cooperation and coordination with those EDFI members that pursue an equally ambitious climate strategy. At the same time, OeEB remains in dialogue with the domestic financial sector at the national level through its observer status in the Green Finance Alliance<sup>12</sup>.

To support the climate transformation of its clients as part of its direct and indirect investments, OeEB will use its technical assistance resources strategically and in line with its TA policy<sup>13</sup>. Among other things, OeEB will design and implement climate TA projects to support its clients in determining greenhouse gas emissions, developing climate strategies and transition plans, and managing climate risks.

Details of OeEB's engagement strategy will be included in the above-mentioned net zero transition plan.

## 5. Climate-friendly alignment of internal processes

As a member of the OeKB Group, OeEB is subject to comprehensive sustainability management practices<sup>14</sup>. Environmentally conscious behaviour is therefore a major concern at all locations in addition to environmental considerations in the core business operations..

Under the leadership of OeKB's Group ESG Office, OeEB will support the path it has pursued since 2000 to reduce GHG emissions and thereby further reduce and optimise emissions from internal processes as part of its energy and emissions management. This includes measures relating to building management, employee mobility, low-carbon events and taking account of potential GHG savings during business trips. At the same time, GHG emissions accounting will be intensified at the OeKB Group level. The OeKB Group will report on this from 2025 as part of the corresponding European Sustainability Reporting Standard on Climate Change (ESRS E1).

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<sup>12</sup> See <https://www.bmk.gv.at/green-finance/alliance/ueber-uns.html>

<sup>13</sup> See OeEB TA Policy Paper

<sup>14</sup> See the OeKB Group Sustainability Report 2023 for detailed information: <https://www.oekb.at/dam/jcr:8d2c42c5-dca4-4e50-bc11-b5c17d46ad93/OeKB-Gruppe-Nachhaltigkeitsbericht-2023.pdf>

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## 3. Reporting

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OeEB is committed to transparency and compiles annual reports on the objectives set out in this paper for the Supervisory Board and the *Business and Development Committee*<sup>15</sup>. In particular, the reports will provide information on the following quantitative and qualitative parameters:

- **Objective 1: Paris Alignment Review of new business.** The number of direct and indirect investments with "aligned" and "non-aligned" status.
- **Objective 2: Achieving our net zero target by 2040.** GHG emissions at portfolio level (t CO<sub>2</sub>e) and GHG intensity of the portfolio (t CO<sub>2</sub>e per million EUR).
- **Objective 3: Making a contribution to international climate finance.** Current status of climate finance in new business (% of new business volume in the previous year according to the OeEB Results Framework).
- **Objective 4: Playing a pioneering role at EDFI level and support for customers.** Reporting on key activities.
- **Objective 5: Climate-friendly and resource-efficient internal processes.** Reporting according to OeKB Group sustainability reporting.

As part of the mid-term review of the OeEB Strategy 2024-2028, the implementation of the requirements set out in this paper will also be assessed.

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<sup>15</sup> The Business and Development Committee advises OeEB on development policy and assesses applications for the assumption of liability by the development bank. Its members are one representative each of the Federal Ministry of Finance as Chairman, the Federal Chancellery, the Federal Ministry for European and International Affairs, the Austrian Development Agency, the Austrian Federal Economic Chamber, the Federal Chamber of Labour and the Development Bank (without voting rights).

