

# World Bank Paris Alignment Method for Investment Project Financing



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## Background and Scope of this Document

1. This document details the World Bank’s (WB) Paris Alignment (PA) Method to assess WB **investment project financing (IPF)** operations and **WB investment project financing (IPF) with financial intermediaries (FI)** (Annex 1) for their alignment with the goals of the Paris Agreement.
2. This Method comes alongside other Instrument Methods for Development Policy Financing (DPF) and Program-for-Results (PforR) financing. Sector Notes complement Instrument Methods by explaining how Instrument Methods are applied to sector-specific issues. Instrument Methods and Sector Notes will be updated over time to reflect lessons learned in aligning WB financing operations with the goals of the Paris Agreement.
3. The definitions of key terms used are provided in the Glossary (Annex 2).

## The WB Paris Alignment Commitment

4. **Paris Alignment means, with respect to WBG financial support for any country, public or private sector entity, as applicable, that new financing flows and guarantees provided by the WBG will be consistent with the objectives of the Paris Agreement and a country’s pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.<sup>1</sup> For these purposes, Paris Alignment is considered and assessed in the broader context of the WBG’s Twin Goals, taking into account, among other things, equity concerns and the principle of common but differentiated responsibilities and respective capabilities, in light of countries’ different national circumstances.**
5. Integrating climate and development is a pillar of the WBG’s [Climate Change Action Plan 2021– 2025 \(CCAP\)](#). As part of the CCAP and the [2018 MDBs’ Joint Declaration](#), the WB has committed to align its operations with the Paris Agreement. This commitment applies to all financing operations approved by the WB Board starting from July 1, 2023.
6. The Paris Agreement’s stated aim is to “strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty.” To achieve its objective, the Paris Agreement includes, in its Article 2.1(c), the goal of “**making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.**”<sup>2</sup>
7. A core assumption underpinning the WB’s Paris Alignment commitment is that countries have flexibility in defining their own contributions to the overarching goal of the Paris Agreement. This is consistent with one of the fundamental principles of the Paris Agreement, which recognizes that countries have different needs and circumstances in integrating climate and development; that peaking of GHG emissions will take longer for developing countries (Art. 2.2., 4.1., and 4.3.); and that each country has common but differentiated responsibilities and respective capabilities in the context of their different national circumstances (Art 4.3). Nationally Determined Contributions (NDCs), Long-term Strategies (LTSs), and National Adaptation Plans (NAPs) are key Paris Agreement documents that communicate a country’s vision for low-GHG emissions and climate-resilient development and set their overall direction of travel. In addition to submitting NDCs, countries are also invited to put forward their mid-century visions for decarbonized and climate-resilient pathways and relevant LTSs, integrating climate change and development. Countries have also agreed to periodically update their NDCs over time, with each successive NDC representing higher ambition, to reflect evolving national circumstances and better incorporate the mid-century LTSs. Many countries are working to identify

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<sup>1</sup> The WBG will align all new operations starting July 1, 2023 (FY24). For IFC and MIGA, 85 percent of Board-approved real sector operations will be aligned starting July 1, 2023, and 100 percent of these starting July 1, 2025.

<sup>2</sup> UNFCCC. 2015. “Paris Agreement.” FCCC/CP/2015/10/Add.1. Paris: United Nations Framework Convention on Climate Change. [http://unfccc.int/paris\\_agreement/items/9485.php](http://unfccc.int/paris_agreement/items/9485.php). Art. 2.

their low-GHG-emission, climate-resilient development pathways, and the WB will continue to support them in preparing their LTSs and updating their NDCs.

8. The WB PA assessment is anchored in the country's climate strategies (including NDCs, LTSs, and NAPs), recognizing that their overall ambition will continue to evolve to collectively pursue the mitigation and adaptation efforts needed to meet the goals of the Paris Agreement.<sup>3</sup> The World Bank PA assessment does not provide a judgment on a country's level of ambition, strategies, or priorities identified in its NDC or LTS.
9. An operation needs to be aligned across mitigation as well as adaptation and resilience dimensions to be considered "Paris-aligned." There are separate steps for assessing the alignment of operations with respect to (i) the mitigation and (ii) the adaptation and resilience goals. The outcome of a PA assessment for an operation is "aligned" or "non-aligned." All activities supported by the operation need to be assessed for it to be aligned. Non-aligned operations cannot be financed by the WB.
10. The Paris Alignment assessment is operation-, context-, and time-specific. That means that an operation which is assessed as "aligned" in a given context in a given country at a given time does not constitute an endorsement of similar operations elsewhere where the context may be different. Teams are expected to carry out these assessments using the information and tools at their disposal. The outcome of the assessment remains an expert judgment, based on the information available at the time of assessment. The information used in the assessment will change over time as technologies and policies evolve globally and in individual countries.
11. The WB's PA commitment is implemented at the operation level during preparation, to achieve a given set of development objectives and in the context of a specific country in a given time frame. The PA Method provides an operational framework to help address relevant issues in terms of design and climate risk management, including by providing necessary assistance to improve the country's institutional systems and capacities to manage associated climate and carbon lock-in risks, and/or by revising the scope and design of the operation and the Development Objective(s) where relevant to achieve equivalent development gains.
12. The proposed PA assessment methods build on, complement, and are consistent with existing WB climate change commitments and operational requirements. More specifically, the commitments on GHG accounting, the shadow price of carbon, and climate and disaster risk screening will inform the PA assessment. Other commitments assess different climate-related aspects of an operation, such as tracking the share of WB lending that contributes to climate mitigation and adaptation activities (climate co-benefits) and monitoring and tracking the progress of climate results of mitigation and adaptation interventions (climate indicators). As explained in the following sections, the proposed PA assessment methods are also consistent with the management of operational risks, and with the Environment and Social Framework (ESF).

## Explanation of the IPF PA Method for assessing Paris Alignment

13. The IPF PA Method follows the assessment steps illustrated in Figure 1. The assessment applies to investments (assets and services, both physical and non-physical) financed through the IPF operation.

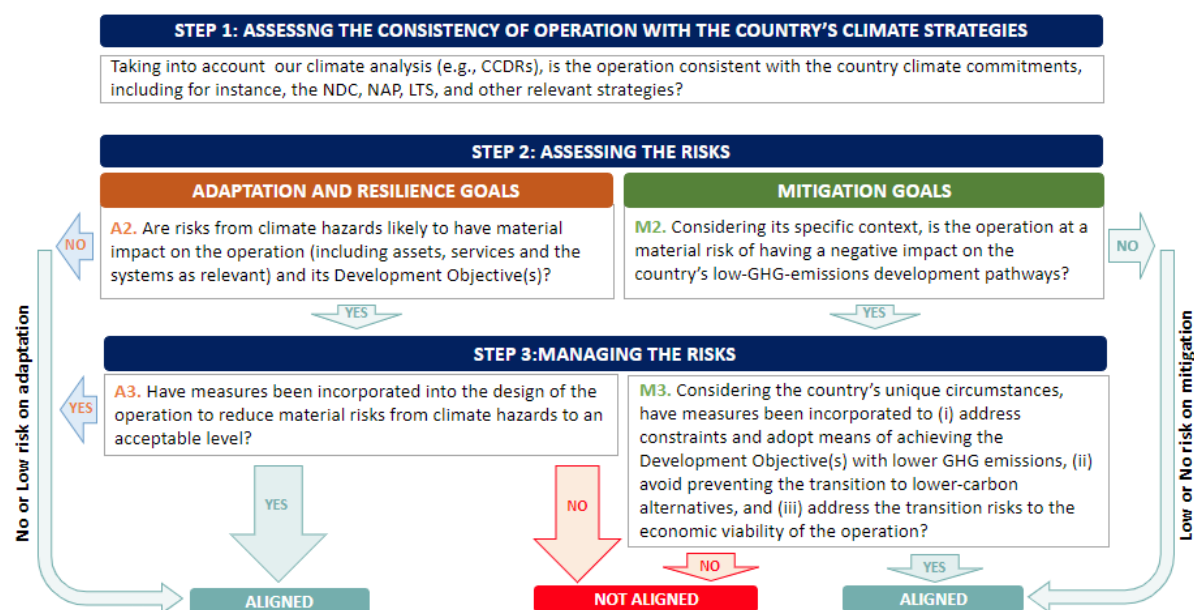
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<sup>3</sup> The WBG's Climate Change Action Plan 2021–2025 refers to the 2021 UNFCCC "Synthesis Report by Secretariat on NDCs under the Paris Agreement", which states that although the updated NDCs (as February 2021) "have improved in quality and ambition, they collectively still fall far short of the mitigation and adaptation needed to meet the goals of the Paris Agreement." The Glasgow decision at COP26 calls on countries to revisit and strengthen their 2030 targets by the end of 2022 to align them with the Paris Agreement's temperature goals, recognizing that "limiting global warming to 1.5°C requires rapid, deep and sustained reduction in global GHG emissions" and "this requires accelerated action in this critical decade, on the basis of the best available scientific knowledge and equity, reflecting common but differentiated responsibilities and respective capabilities and in the context of sustainable development and efforts to eradicate poverty."

Risks should then be assessed in the context of the broader activity or system-level framework (or, as applicable, the value chain) in which the operation is designed and will operate. The assessment of risks should focus on the overall impact of a project, as well as the policy and regulatory landscape.

14. PA assessment of an IPF operation considers the country context and development needs; different levels of climate vulnerability; absolute GHG emissions and relative contribution to global GHG emissions; market, institutional, technical, and financial capacity; and different climate commitments.

**Figure 1. Approach for assessing alignment of IPFs with the goals of the Paris Agreement**



## Step 1: Assessing the Consistency of the Operation with the Country's Climate Strategies

**STEP 1: ASSESSING THE CONSISTENCY OF THE OPERATION WITH THE COUNTRY'S CLIMATE STRATEGIES**

Taking into account our climate analysis (e.g., CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?<sup>4</sup>

15. Taking into account our climate analysis, e.g., Country Climate and Development Reports (CCDRs), teams should assess the consistency of the operation with the country's climate commitments, looking, for instance, at the most recent NDC submitted to the UNFCCC, and the NAP and LTS (if available).

<sup>4</sup> Step 1 corresponds to the Specific Criterion 1 of the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations: *Is the operation/economic activity inconsistent with the NDC of the country in which it takes place?* It also covers the Specific Criterion 2 of the Joint Framework: *Is the operation/economic activity, over its lifetime, inconsistent with the country's LTS or other similar long-term national economy-wide, sectoral, or regional low-GHG emissions strategies compatible with the mitigation goals of the Paris Agreement?*

The assessment can also consider other relevant sectoral, sub-national or regional climate change strategies to which the country subscribes.

16. In cases where there is a likelihood that the operation will hinder the achievement of the country's climate strategies, the team should engage further with the government to understand if country strategies are being revised or ensure alignment by revising the design of the project, including the project objectives where relevant. If this is not possible, the operation should not be supported by the WB.
17. Once it is established that the operation does not hinder the achievement of the country climate strategies, the task team can proceed to **Steps 2 and 3**.

## Steps 2 and 3: Assessing and managing mitigation and adaptation risks

### MITIGATION GOALS

#### Assessing alignment with climate change mitigation goals: Mitigation Steps M2 and M3

18. An operation is considered **aligned with the Paris Agreement's mitigation goals** if it (i) actively contributes to decarbonization by reducing GHG emissions or increasing sinks<sup>5</sup> (e.g., renewable energy, afforestation), or (ii) has little impact on decarbonization on account of having negligible GHG emissions (e.g., digital inclusion and connectivity), or (iii) generates GHG emissions but is in line with the country's long-term decarbonization pathway and has a low risk of locking in carbon-intensive patterns.<sup>6</sup>
19. An operation is considered **non-aligned with the Paris Agreement's mitigation goals** when it is inconsistent with the country's decarbonization pathway, taking into consideration the country's specific circumstances, and leads to a significant risk of carbon lock-in.
20. Carbon lock-in occurs when an IPF operation supports investments, institutions, or behaviors that will persist in the future in an emission-intensive way and hinder the transition to low-GHG emissions development pathways even when alternatives with lower GHG emissions become technically feasible and economically viable (i.e., it creates persistent barriers to the transition).<sup>7</sup>
21. The assessment of alignment with mitigation goals comprises two steps (see Figure 1). **Step M2** assesses whether the operation is at a material risk<sup>8</sup> of having a negative impact on the country's low-GHG emissions development pathways following four sub-steps as outlined in figure 2 below. **Step M3** assesses whether the level of risk to the transition to a lower-GHG emissions development pathway identified in Step M2 is being reduced to low.
22. The risk assessment for mitigation includes consideration of (i) the country's development context, including economy-wide and sector-wide low-GHG emissions and climate-resilient pathways, and institutional capacity alongside (ii) the impact of the proposed operation on GHG emissions and carbon sinks in the specific project context. For example: (i) lower-income countries facing essential

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<sup>5</sup> See Glossary.

<sup>6</sup> In some cases, even investments that are associated with relatively high GHG emissions may be deemed Paris-aligned if there are no technically feasible and economically viable lower-emission alternatives in the specific country and sector context that can meet the same development objectives, provided the risk of creating persistent barriers to the transition to low-carbon development is low.

<sup>7</sup> A lower-GHG emissions option in this context has a high degree of certainty that it will be technically feasible and economically viable in a world in which the goals of the Paris Agreement are met. Carbon lock-in can occur due to technical, economic, or institutional factors of a project.

<sup>8</sup> See Glossary.

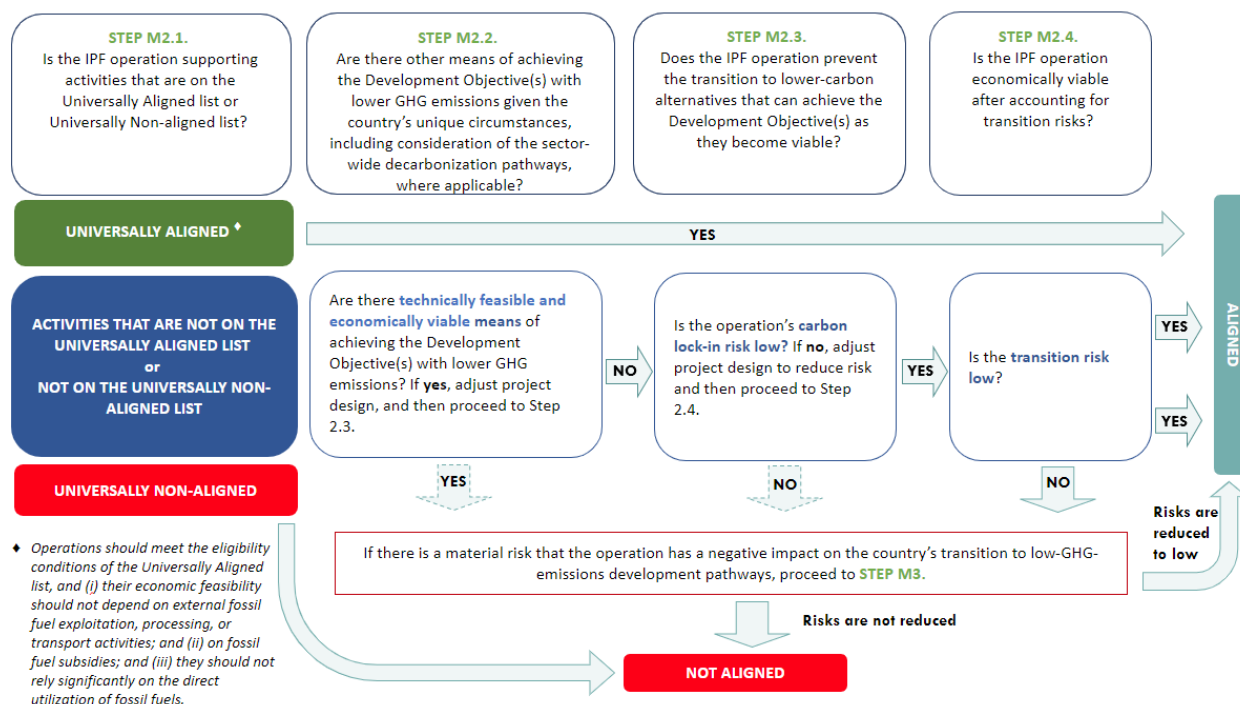
development needs are typically lower on their GHG emissions trajectory and historically contributed very little to global GHG emissions, while upper- and middle-income countries, many of which are already large or fast-growing GHG emitters, have committed to reducing their emissions; (ii) lower-income countries may have more limited economic, financial, institutional, technical, and market capacity to access and adopt lower-GHG emissions alternatives; whilst higher-emitting upper-middle-income countries may focus on transitioning away from fossil fuels across the economy and removing market barriers for green technologies, while working to ensure a just transition; and (iii) the ease and capacity of substituting emissive activities and systems by lower-carbon alternatives is partly reliant on the availability, scale of deployment, and supporting infrastructure and policies. The WB Country Climate and Development Reports (CCDRs), where available, can provide a useful analytic base to support teams in considering the broader synergies and trade-offs between a country’s national climate commitments and development objectives.<sup>9</sup>

## Mitigation Step M2: Assessing the risks

MITIGATION GOALS

**M2.** Considering its specific context, is the operation at a material risk of having a negative impact on the country’s low-GHG emissions development pathways?

**Figure 2. Assessing risks of an operation of having a negative impact on the country’s low-GHG emissions development pathways (Steps M2.1–M2.4)**



MITIGATION GOALS

<sup>9</sup> Through CCDRs, country engagement products will incorporate climate, biodiversity and natural capital, and disaster risk issues, including as reflected in country climate strategies and NDCs.



**M2.1.** Is the IPF operation supporting the activities that are on the Universally Aligned list or Universally Non-Aligned list?

23. Step M2.1 assesses whether the operation is supporting activities that are on the Universally Aligned list or on the Universally Non-aligned list.
24. The list of **universally aligned** activities contains activities that are deemed to pass **Step M2**, as they are expected to (i) actively contribute to decarbonization consistent with the pathways aligned with the mitigation goals of the Paris Agreement under all circumstances and in all countries, or (ii) have a negligible impact on decarbonization as they do no harm to the countries' transition to long-term low-GHG emissions pathways under all circumstances and in all countries.
25. The universally aligned activities are subject to certain conditions. Activities will have to be further assessed if they fall under any of the following cases: (i) projects whose economic feasibility depends on external fossil fuel exploitation, processing, or transport activities (e.g., a railway dedicated to transporting coal from a mine to a new coal-fired power plant); (ii) projects whose viability depends on fossil fuel subsidies; and (iii) projects that rely significantly on the direct utilization of fossil fuels (e.g., a large nickel refining plant with captive coal generation). The team should check the project against the list of activities that are considered universally aligned. If some activities within the project are not on the universally aligned list, then the operations will need to be assessed further. An activity that is on the universally aligned list and meets the relevant conditions will be considered aligned and no further assessment is needed. An activity that does not meet the conditions or falls under any of the three cases, requires further assessment, specifically in terms of its exposure to the transition risks and success in delivering development benefits (**Steps M2.2–M2.4**).<sup>10</sup>
26. Some operations are deemed to undermine the mitigation goals of the Paris Agreement for all intents and purposes under all circumstances and in all countries and are therefore included in the **universally non-aligned list**. The draft list of universally non-aligned activities covers (i) electric power generation from coal and peat, and (ii) activities directly supporting coal and peat extraction. IPF operations will be considered **non-aligned** if they support any activity on the universally non-aligned list.
27. The assessment of operations that are not on the universally aligned or the universally non-aligned lists should proceed to **Steps M2.2–M2.4**. The scale, GHG-emission intensity, and operational lifetime of supported assets or systems will contribute to the likelihood of a project having a material risk of negative impact on the country's low-GHG emissions development pathways, including the reduction of carbon sinks,<sup>11</sup> and the transition risks to the achievement of the Development Objective(s).

## MITIGATION GOALS

<sup>10</sup> The lists of activities considered universally aligned or universally non-aligned will be periodically updated, increasing ambition over time to meet the goals of the Paris Agreement. Updates will also reflect evolving technologies, policies, practices, and consumer behavior.

<sup>11</sup> The reduction of sinks may be due to the land use changes such as the conversion of forest or other wooded land, wetland, or peatland to any other use, and conversion of grassland to arable land.



**M2.2.** Are there other means of achieving the Development Objective(s) with lower GHG emissions given the country's unique circumstances, including consideration of the sector-wide decarbonization pathways, where applicable?<sup>12</sup>

28. This step entails assessing whether there are technically feasible and economically viable alternatives with lower GHG emissions that can achieve the same Development Objective(s). A range of lower-GHG emissive alternatives and good practices for operations that are not on the universally aligned list that may contribute to achieving long-term mitigation goals is discussed the literature on global, regional, or sectoral decarbonization. Countries have different levels of readiness to deploy these lower-carbon alternatives, considering, for example, their technological complexity, costs, and synergies and trade-offs with other development goals, as well as resource availability, production and consumption structures, and technical and institutional capacities. Teams should therefore select options that are country- and market-specific, taking into account local costs and availability and the sector-wide decarbonization pathways, where applicable.
29. If there are lower-GHG emissive alternatives that can achieve the same development objective(s), the team should adjust the project design to pursue the lower-GHG emissive option. All operations need to proceed to **Step M2.3**, which consists of assessing carbon lock-in risk, and assess whether the operation's economic viability is at risk, considering the transition risks in the country context (**Step M2.4**).

#### MITIGATION GOALS

**M2.3.** Does the IPF operation prevent the transition to lower-carbon alternatives that can achieve the Development Objective(s) as they become viable?<sup>13</sup>

30. The team should examine whether the operation is likely to prevent or materially slow down the future deployment of lower-carbon alternatives by locking in GHG emissions even as lower-carbon alternatives that can achieve the Development Objective(s) become viable, creating persistent barriers to the transition.
31. A country's decarbonization pathway depends on many characteristics, such as the country's income level; poverty incidence; economic structure and dependence on fossil fuels; renewable energy potential; and the capacity of the government to support the transition, especially for the poor and vulnerable. Therefore, in assessing the likelihood of carbon lock-in, the country's development context and the sector-wide decarbonization pathways should be carefully considered.
32. If the carbon lock-in risk is low, proceed to **Step M2.4** to assess whether the project Development Objective(s) are at risk from low-carbon transitions. Otherwise, if there is a material risk that the operation prevents the country's transition to low-GHG emissions development pathways, the team should consider how the project design may be adjusted to reduce the risk to low, and then proceed to **Step M2.4** once risks have been reduced.

#### MITIGATION GOALS

<sup>12</sup> This step corresponds to Specific Criterion 3 of the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations: *Is the operation/economic activity inconsistent with the global sector-specific decarbonization pathways in line with the Paris Agreement mitigation goals, considering countries' common but differentiated responsibilities and respective capabilities?*

<sup>13</sup> This step corresponds to Specific Criterion 4 of the Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations: *Does the operation/economic activity prevent opportunities to transition to Paris-aligned activities, OR primarily support or directly depend on non-aligned activities in a specific country/sectoral context?*

**M2.4.** Is the IPF operation economically viable after accounting for transition risks?<sup>14</sup>

33. Teams should consider the exposure of the proposed IPF operation and its Development Objective(s) to transition risks, which are the risks associated with transitioning to a low-GHG-emissions economy globally and in individual countries, and which entail extensive policy, legal, technology, and market changes to address mitigation actions related to climate change. One way of doing so is to assess whether the project is economically viable inclusive of the shadow prices of carbon.
34. The WB's [shadow carbon price and guidance](#) can be used as one way of capturing the transition risks in the economic analysis of the project. The assessment of the exposure and sensitivity of the project's economic viability to transition risks should be compared to those of the alternatives with lower GHG emissions, including to inform on the respective attractiveness of different economically viable alternatives.
35. If there are no feasible means of achieving the project Development Objective(s) with lower GHG emissions (**Step M2.2**), the carbon lock-in risk is low (**Step M2.3**, as applicable), and the transition risk to the operation's economic viability is low (**Step M2.4**), the operation is considered **aligned**. Otherwise, there is a material risk that the operation has a negative impact on the country's transition to low-GHG emissions development pathways and the team should apply risk reduction measures using **Step M3**.

### Mitigation Step M3: Risk management

#### MITIGATION GOALS

**M3.** Considering a country's unique circumstances, have measures been incorporated to reduce the risk to a low level by (i) addressing constraints and adopting means of achieving the Development Objective(s) with lower GHG emissions, (ii) avoiding preventing the transition to lower-carbon alternatives, and (iii) addressing the transition risks to the economic viability of the operation?

36. Risks identified and assessed under **Step M2** should be managed and adequately mitigated through appropriate risk reductions measures in the design of the IPF operation or through measures outside the operation. Such risks should be reduced to low for the operation to be considered aligned with the mitigation goals of the Paris Agreement.
37. Where relevant, teams should demonstrate that measures have been incorporated to (i) address constraints to alternatives with lower GHG emissions and to adopt lower GHG-emitting means of achieving the Development Objective(s), (ii) avoid preventing or slowing down the transition to lower-GHG emissions alternatives, and (iii) address the transition risks to the economic viability of the operation and its Development Objective(s).
38. Risk mitigation measures depend on the type of operation, the maturity of the sector, and enabling systems in place, considering the country's development context and climate commitments and frameworks, as well as the level and types of risks identified under **Step M2**. As illustrative examples, risk mitigation measures could include providing technical assistance or formulating policy reforms that aim to facilitate the development, availability, and integration of alternatives with lower GHG emissions and to create an enabling environment and infrastructure; modifying contractual or institutional arrangements or operating modalities to ensure lower GHG emissions alternatives are

<sup>14</sup> This step corresponds to Specific Criterion 5: *Is the operation/economic activity economically unviable, when taking into account the risks of stranded assets and transition risks in the national/sectoral context?*

employed/considered in the future; or providing technical assistance to address potential market barriers introduced by transition risks. The risk mitigation measures can also include revising the scope and the design of the operation and the project Development Objective(s) where relevant to achieve equivalent development gains.

39. If the level of risk is being reduced to low, the IPF operation is aligned with the mitigation goals of the Paris Agreement. If the risk is not being addressed, the IPF operation is not aligned and should not be supported.

## ADAPTATION AND RESILIENCE GOALS

### Assessing alignment with adaptation and resilience goals: Adaptation Steps A2 and A3

40. An operation is aligned with the Paris Agreement's adaptation and resilience goals when the likely material risks from climate hazards to the operation have been assessed and reduced through the design of the operation to an acceptable level of residual risk, considering climate adaptation good practices applicable to the country context.
41. Project level impacts that could significantly increase existing vulnerability to climate hazards are addressed through the World Bank's Environmental and Social Framework (ESF).
42. Risks from climate hazards arise from climate change impacts, including both gradual changes in temperature, precipitation, and seasonal patterns and sudden-onset impacts, such as extreme weather events (droughts, forest fires, hurricanes, floods). As it relates to direct investments, risk results from the interaction of hazard, exposure, and vulnerability. Climate hazards refer to the climate-related physical events or trends or their physical impacts; exposure refers to the presence of people, livelihoods, ecosystems, services, infrastructure, or assets in places and settings that could be adversely affected; and vulnerability is understood as the propensity to be adversely affected.
43. Operations with **no material** risk from climate hazards are considered **aligned** with the adaptation and resilience goals of the Paris Agreement, and do not need further assessment.
44. If an operation's investments have inherent risks from climate hazards, the task team should incorporate risk reduction measures to limit the exposure to an acceptable level of residual risk in relation to the expected gain by taking action to reduce the probability of the risk occurring and its impact.
45. An operation may be at risk from climate hazards and yet still be aligned for this step, as long as there are no technically feasible and economically viable alternatives with greater resilience for the same Development Objective(s), given the specific country and sector context. However, risks from climate hazards to the investments, and therefore to the Development Objective(s), which are substantial or high should be discussed following the usual guidance on discussing and mitigating risks for IPF.
46. An operation is considered non-aligned with adaptation and resilience goals when risks from climate hazards have been identified but not sufficiently addressed given available technically feasible and economically viable alternatives, preventing the operation from achieving its intended project results.
47. The assessment of alignment with adaptation and resilience goals comprises two steps (figure 2). **Step A2** assesses whether the IPF operation (assets and services, both physical and non-physical) is at material risk from current and future climatic conditions. **Step A3** assesses whether measures have been incorporated to reduce material risks from climate hazards.

## Adaptation Step A2: Assessing the risks

### ADAPTATION AND RESILIENCE GOALS

**A2:** Are risks from climate hazards likely to have a material impact on the operation (including assets, services and the systems as relevant) and its Development Objective(s)?

48. The objective of **Step A2** is to determine if an operation (including assets and services, both physical and non-physical) is likely to be materially impacted by risks from climate hazards and if such risks will hinder its ability to achieve its Development Objective(s). The [WB Climate and Disaster Risk Screening Tools](#) can be used for this purpose.
49. This step lays out a systematic approach for identifying and assessing the risks from climate hazards that could affect the operation over the relevant time horizon. Depending on the nature of investments, these risks could refer to impacts on its assets, the services provided, associated human and natural systems (e.g., ecosystem services), or targeted beneficiaries, and could manifest over short-, medium-, or long-term time frames.
50. Identifying and assessing risk in **Step A2** generally consists of assessing the operation's **level of exposure** to current and future climate hazards and the **vulnerability** of the operation's investments to relevant climate hazards.
51. Identifying climate hazards relevant to the operation: Current and future climate hazards prevalent in the project location and relevant to the activities within the operation need to be identified. Climate hazards are a physical process or event (such as hydro-meteorological or oceanographic variables or phenomena) that can harm human health, livelihoods, or natural resources. Climate hazards may be chronic (progressive shifts in climate conditions, such as gradual reductions in annual rainfall), or acute (extreme weather events such as floods, cyclones, or storms). Additionally, climate hazards can be direct (heat waves, changing rainfall patterns) or indirect (increased disease pressure, loss of biodiversity, infrastructure failure, financial instability). These hazards may result in the loss of life, physical damages, loss of livelihoods, asset underperformance, and environmental degradation. The nature of climate hazards strongly varies with the sector and region in which the operation is located. It is important to note that not all climate hazards in the project location will be relevant to the operation and only those hazards relevant to the activities need to be assessed for PA. **If there are no relevant climate hazards, the operation is deemed not to be at risk, and it will be considered aligned with adaptation and resilience goals and no further assessment is needed.**
52. Assessing exposure to relevant climate hazards: An operation's exposure to relevant climate hazards is based on two main factors: (i) whether the operation is in a location and setting where (directly or indirectly) the relevant climate hazards are expected to occur, and (ii) whether the assets, systems, beneficiaries and/or vulnerable groups might be exposed to these hazards. Exposure should be assessed under various climate change scenarios over suitable time frames, based on the nature and lifetime of activities. Climate change scenario selection is an important aspect of determining an operation's climate hazard exposure, and it is good practice to select at least two climate scenarios, such as a best-case low-GHG emissions scenario and a high-GHG emissions scenario. Time frames for assessing exposure will mainly depend on the lifetime of assets being created or services being provided by the project.
53. Assessing the vulnerability of the project's activities to climate hazards: Once an operation's exposure to relevant climate hazards is known, their impact on each activity financed by the operation must be systematically assessed. This depends on the operation's level of exposure to relevant climate hazards and its sensitivity to such hazards. Sensitivity is the degree to which an asset, system or species may be

affected (either adversely or beneficially) when exposed to climate hazards. It is crucial that the impacts of both short-term (acute) and long-term (chronic) as well as direct and indirect climate hazards are considered. After the impacts of relevant climate hazards on the activities being financed through the operation have been assessed, their vulnerability to these hazards can be determined by considering their ability to cope with these impacts (i.e., adaptive capacity). Adaptive capacity is the ability of systems, institutions, humans, and other organisms to adjust to potential damage, to take advantage of opportunities, or to respond to consequences of hazards. Adaptive capacities are also reliant on broader systems, sector, and development contexts.

54. Assessing inherent level of risk from climate hazards to the operation: Based on the activities' climate hazard exposure (the impact of such hazards on the activities being financed and their vulnerability to such hazards), it is necessary to assess the inherent risk to the operation. If the operation is deemed not to be at material risk (that is, there is no or low inherent risk from climate hazards), the operation will be considered aligned with adaptation and resilience goals and no further assessment is needed. If risks are identified, the assessment continues to **Step A3**.

### Adaptation Step A3: Risk management

ADAPTATION AND RESILIENCE GOALS
<p><b>A3:</b> Have measures been incorporated into the design of the operation to reduce material risks from climate hazards to an acceptable level?</p>

55. The objective of **Step A3** is to demonstrate that the operation's vulnerability to risks from climate hazards identified in **Step A2** has been addressed through risk reduction (adaptation) measures to minimize the risk of its investments failing in the face of changing climatic conditions. **Step A3** consists of identifying and incorporating risk reduction (adaptation) measures in the operation's design to address the identified risks from climate hazards, and determining and documenting the residual risk in a qualitative manner.
56. Measures to manage risks from climate hazards: measures should be proportionate to the nature and scale of the potential impact(s) of such risks on the operation. Climate vulnerability can be addressed through a combination of hard and soft measures that are appropriate for the project's development context.
- Prioritize climate hazards that need to be addressed: The outcomes of the assessment undertaken for **Step A2** should be used to classify and prioritize the climate hazards that pose the highest potential risk to the operation's success based on their nature and scale of impact on the operation.
  - Identify and select appropriate climate risk reduction/adaptation measures: Once the key climate hazards have been prioritized, risk reduction measures can be selected based on the impact of such measures on the activities being financed by the operation and its vulnerability to such hazards. Selection of appropriate measures should be informed by the extent to which risks need to be reduced and the level of residual risk that can be tolerated. This depends on a variety of factors, including the level of inherent adaptive capacity, capacity of the client, lifecycle of the project, and costs of the measures and impact of the failure of the operation/activities on the wider system in which they operate. Teams can use a variety of tools ranging from simple to more complex methods such as cost effectiveness, cost-benefit analysis, participatory scenario development, and decision making under deep uncertainty to select the most appropriate measures in their project's context. These tools for decision making will vary based on the sector and region and will also depend on the capacities and data availability in the client country.

57. Residual risk from climate hazards and its impact on the operation: Once climate risk reduction measures have been selected, it is possible to analyze the residual risk from climate hazards in the operation and its impact on the operation's ability to achieve its Development Objective(s) (i.e., overall project performance). Residual risk from climate hazards is the risk that remains following the integration of climate risk reduction (adaptation) measures. Risks from climate hazards to an operation should be reduced to the extent possible, after considering the costs and benefits of the climate risk reduction measures as well as the severity of potential impacts of climate hazards on the operation's activities and beneficiaries.
58. If the risk from climate hazards to the IPF operation is being reduced to an acceptable level, the operation is aligned with the adaptation goals of the Paris Agreement. Residual risk from climate hazards to the investments, and therefore to the Development Objective(s), that is substantial or high should be discussed following the usual guidance on discussing and mitigating risks for IPF. This rating is qualitative and will depend on the team's expert judgment and sectoral and regional knowledge, as well as the information available. The team can further develop their risk classifications by consulting with subject matter experts and involving local stakeholders in the process as relevant. If the risks are not being addressed to an acceptable level, the IPF operation is not aligned and should not be supported.

# Annex 1. World Bank Paris Alignment Method for Investment Project Financing through Financial Intermediaries

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## Background and Scope

1. Financial intermediation is when Bank funds are channeled for on-lending and/or risk sharing purposes to final recipients (individuals/households or businesses), either
  - (i) indirectly through a wholesale entity (for example an apex facility, guarantee fund, or a second-tier development bank), resulting in financing by retail financial intermediaries (for example banks, microfinance institutions, leasing companies, or credit unions), or
  - (ii) directly through a retail financial intermediary (which can be public or private).
2. In this document, the “counterparty” refers to the entity directly receiving Bank funds. In case (i), the counterparty would be the wholesale entity (i.e., apex facility), and in case (ii), the counterparty would be the retail financial intermediary.
3. In many projects, it is likely the case that only some of the components are delivered through FIs. In these cases, the PA method presented here will only apply to the components delivered through FIs. The remaining components will follow the PA method for IPFs. Technical assistance, training, and institutional development support can be used to help financial intermediaries operationalize PA methods.

## Alignment with mitigation and adaptation

4. An operation is considered **aligned with the Paris Agreement’s mitigation goals** if it (i) actively contributes to decarbonization by reducing GHG emissions or increasing sinks<sup>15</sup> (e.g., renewable energy, afforestation), or (ii) has little impact on decarbonization on account of having negligible GHG emissions (e.g., digital inclusion and connectivity), or (iii) generates GHG emissions but is in line with the country’s long-term decarbonization pathway and has a low risk of locking in carbon-intensive patterns.<sup>16</sup>
5. An operation is considered **non-aligned with the Paris Agreement’s mitigation goals** when it is inconsistent with the country’s decarbonization pathway, taking into consideration the country’s specific circumstances, and leads to a significant risk of carbon lock-in.
6. Carbon lock-in occurs when an operation supports investments, institutions, or behaviors that will persist in the future in an emission-intensive way and hinder the transition to low-GHG emission development pathways even when alternatives with lower GHG emissions become technically feasible and economically viable<sup>17</sup> (i.e., it creates persistent barriers to the transition).
7. An **operation is aligned with the Paris Agreement’s adaptation and resilience goals** when the likely material impacts of risks from climate hazards on the operation have been assessed and reduced to an acceptable level of residual risk, considering climate adaptation good practices applicable to the country context.
8. Risks from climate hazards arise from climate change impacts, including both gradual changes in temperature, precipitation, and seasonal patterns, and sudden-onset impacts such as extreme weather

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<sup>15</sup> See Glossary.

<sup>16</sup> In some cases, even investments that are associated with relatively high GHG emissions may be deemed Paris-aligned if there are no technically feasible and economically viable lower-emission alternatives in the specific country and sector context that can meet the same development objectives, provided the risk of creating persistent barriers to the transition to low-carbon development is low.

<sup>17</sup> A lower-GHG emissions option in this context has a high degree of certainty that it will be technically feasible and economically viable in a world in which the goals of the Paris Agreement are met. Carbon lock-in can occur due to technical, economic, or institutional factors of a project.

events (droughts, forest fires, hurricanes, floods). As it relates to direct investments, risks result from the interaction of hazard, exposure, and vulnerability. Climate hazards refer to the climate-related physical events or trends or their physical impacts; exposure refers to the presence of people, livelihoods, ecosystems, services, infrastructure, or assets in places and settings that could be adversely affected; and vulnerability is understood as the propensity to be adversely affected.

9. Operations with **no or minor** risks from climate hazards are considered **aligned** with the adaptation and resilience goals of the Paris Agreement and do not need further assessment.
10. If an operation's investments have inherent risks from climate hazards, the task team should incorporate risk reduction measures to limit the exposure to an acceptable level of residual risk in relation to the expected gain by taking action to reduce the probability of the risk occurring and its impact.

## Explanation of the IPF with FIs PA Method

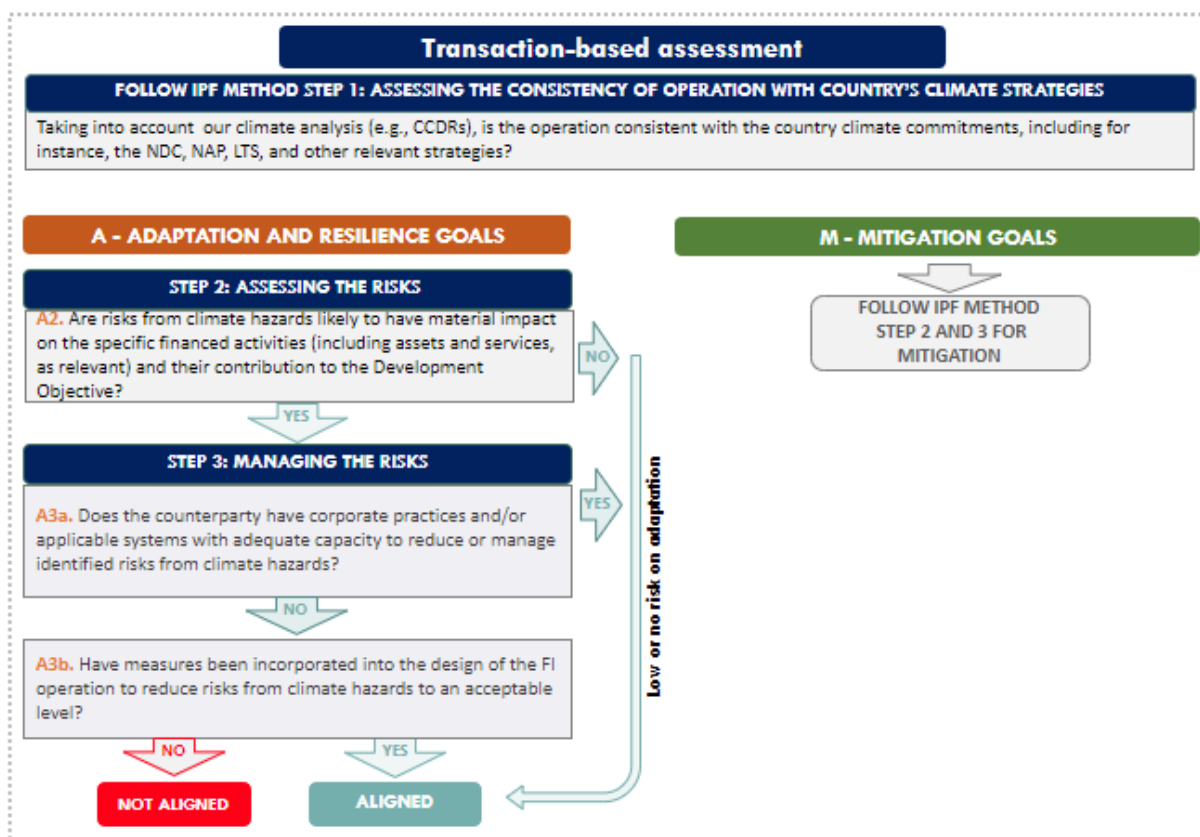
### Two-pronged assessment

11. WB support to FIs can take different forms. FIs may provide a variety of financial products and services such as credit products, which can be funded (loans) or unfunded but supported in terms of risks (guarantees); other financial products include investment banking products or capitalization. For projects involving a wholesale entity, the assessment applies at the apex facility level and not the retail FIs or the end-beneficiaries. This method groups them into two main categories and proposes a distinct alignment methodology for each, and is consistent with the WB Environmental and Social Standard #9 for financial intermediaries:
  - **Support targeted to specific sector(s) for end use of proceeds or clearly defined FI subprojects.** These are investments where Bank support is targeted to a specific end use identified ex-ante (for example, a credit line for specific identifiable business activities in a given sector such as small and medium enterprises, or funding for specific subprojects, or a guarantee that can identify specific investments supported). These projects should undergo a **transaction-based assessment**, focused on the alignment of the specific financed activity.
  - **General purpose financial support with no specified end use.** These are investments where Bank support is provided to the FI for a general purpose, meaning that the support cannot be traced to a specific FI subproject or specific pre-identified sectors or types of financing. For example, this could be for general financial intermediation when project funds are pooled with other general purpose sources of financing, capitalization, or equity. Commonly, in these cases the project funds are pooled with funds from other sources managed by the FI. These projects should undergo a **counterparty-based assessment**, focused on the FI at the institutional level.
12. The following sections describe the step-by-step respective approaches of transaction-based and counterparty-based assessments.

### Transaction-based assessment

13. The transaction-based assessment examines whether the identified specific financed activities are aligned with the mitigation and adaptation and resilience goals of the Paris Agreement. The Paris Alignment requirements apply only to: (i) the specific part of the FI operations that generates and manages the specific end use or known subprojects and to (ii) FI subprojects financed or guaranteed directly by the Bank's support.
14. A high-level summary of the transaction-based assessment is included in Figure 1.

**Figure 2: Approach for the transaction-based assessment of alignment of FI lending**



**Step 1: Assessing the Consistency of the Operation with the Country’s Climate Strategies**

15. Taking account of our climate analysis, e.g., CCDRs, teams should assess the consistency of the operation with the country climate commitments, looking, for instance, at the most recent NDC submitted to the UNFCCC, and the NAP and LTS (if available). The assessment can also consider other relevant sectoral, sub-national, or regional climate change strategies to which the country subscribes.
16. In cases where there is a likelihood that the operation will hinder the achievement of the country’s climate strategies, the team should engage further with the government to understand if country strategies are being revised or ensure alignment by revising the design of the project, including the project objectives where relevant. If this is not possible, the operation should not be supported by the WB.
17. Once it is established that the operation does not hinder the achievement of the country climate strategies, the task team can proceed to **Steps 2 and 3**.

**Alignment with Mitigation Goals**

18. For specific purpose FI lending, the assessment for alignment with the mitigation goals of the Paris Agreement follows the same Steps 2 and 3 as the mitigation assessment for regular IPF. In the case of FI lending, the steps are applied to the list of proposed sub-projects being supported through the FI project/component.

## **Alignment with Adaptation Goals**

19. For specific purpose FI lending, the assessment for alignment with the adaptation goals of the Paris Agreement focuses on both (i) the potential for the specific financed activities to be exposed to material risks from climate hazards, and, if risks are found to be material, (ii) the FI's capacity to manage such risks. This is because, under FI lending, while activities may be targeted to a specific, identifiable end use, their end location and levels of exposure to risks from climate hazards may not be entirely known.
20. The specific purpose FI lending approach for assessing alignment with adaptation and resilience follows the following approach:

### **Step A2: Assessment of risks from climate hazards**

21. The objective of **Step A2** is to determine if the financing flow in an FI operation (including assets and services, both physical and non-physical) is expected to reach activities and/or subprojects in sector and location combinations that may be materially impacted by risks from climate hazards, and if such risks will hinder the ability to achieve the operation's development objective. The [WB Climate and Disaster Risk Screening Tools](#) can be used for this purpose.
22. The assessment of risk should follow Step A2 of the IPF Method for Adaptation and Resilience.
23. If the specific financed activities are deemed not to be at risk (that is, there is no or low inherent risk from climate hazards), the operation will be considered aligned with adaptation and resilience goals and no further assessment is needed. If risks are identified, the assessment continues to Step A3.

### **Step A3: Risk Management for Adaptation and Resilience**

24. The objective of Step A3 is to demonstrate that the operation's vulnerability to risks from climate hazards identified in Step A2 is being addressed through risk reduction (adaptation) measures to minimize the risk of its investments failing in the face of changing climatic conditions.
25. Step A3 consists of analyzing the counterparty's corporate practices and applicable systems to determine their capacity to address, reduce, and manage risks from climate hazards to the specific financed activities. In case such practices or systems exist and their capacity to manage these risks is deemed adequate, the specific financed activities can be considered aligned with adaptation and resilience goals.
26. If the requisite corporate practices and applicable systems are not deemed adequate, measures should be included in the operation to enhance risk management systems and capacity and/or to add specific measures to manage the risks to the specific financed activities, as follows:
27. Enhancing risk management systems: Risks from climate hazards to FI operations can be addressed by enhancing the FI's capacity for climate risk screening and implementing climate risk reduction measures. For example, climate risk screening and climate risk reduction measures could be included as one of the minimum design criteria for relevant activities in the operation.
28. Measures to manage risks from climate hazards to the specific financed activities: Risk reduction (adaptation) measures should be proportionate to the nature and scale of the potential impact(s) of such risks on the operation. Climate vulnerability can be addressed through a combination of hard and soft measures that are appropriate for the operation's development context.
  - Prioritize climate hazards that need to be addressed: The outcomes of the assessment undertaken for **Step A2** should be used to classify and prioritize the climate hazards that pose the highest potential risk to the operation's success based on their nature and scale of impact on the operation.

- Identify and select appropriate climate risk reduction/adaptation measures: Once the key climate hazards have been prioritized, risk reduction measures can be selected based on the impact of such measures on the activities being financed by the operation and its vulnerability to such hazards. Selection of appropriate measures should be informed by the extent to which risks need to be reduced and the level of residual risk that can be tolerated. This depends on a variety of factors, including the level of inherent adaptive capacity, capacity of the client, lifecycle of the project, and costs of the measures and impact of the failure of the operation/activities on the wider system in which they operate. Teams can use a variety of tools ranging from simple to more complex methods such as cost effectiveness, cost-benefit analysis, participatory scenario development, and decision making under deep uncertainty to select the most appropriate measures in their project's context. These tools for decision making will vary based on the sector and region and will also depend on the capacities and data availability in the client country.
29. Residual risk from climate hazards and its impact on the operation: Once measures to enhance risk management capacity and systems have been incorporated into the operation's design, the team should assess the residual risk from climate hazards and its impact on the operation's ability to achieve its overall development objective. Residual risk from climate hazards to an FI operation depends on the level of inherent risk from climate hazards and the capacity of the FI to incorporate climate risk reduction measures, taking into account enhancement measures outlined in the operation.
  30. If the risk from climate hazards to the FI operation's development objective is being reduced to an acceptable level, the operation is aligned with the adaptation goals of the Paris Agreement. This would be the case, for example, when the financing of an operation aims at increasing the climate resilience of beneficiaries that are highly exposed to climate risk. Residual risk from climate hazards which is substantial or high should be discussed following the usual guidance on discussing and mitigating risks for IPF. This rating is qualitative and will depend on the team's expert judgment and sectoral and regional knowledge, as well as the information available. The team can further develop their risk classifications by consulting with subject matter experts and involving local stakeholders in the process as relevant. If the risks are not being reduced to an acceptable level, the FI operation is not aligned.

## Counterparty-based assessment

31. Per paragraph 11, the counterparty-based assessment is applicable to investments without targeted use of proceeds identified for end use ex-ante (e.g., activities or sectors) and is applied at the financial institution level (for projects involving a wholesale entity, the assessment applies at the apex facility level and not the retail FIs or the end-beneficiaries). The counterparty-based assessment can only be used for FIs that do not approve new financial commitments<sup>18</sup> on the universally non-aligned list.<sup>19</sup> When benefiting from a general-purpose equity investment or loan (e.g., working capital loan) as part of a WB project, the FI must commit to reducing its exposure to these activities to zero in a defined and agreed upon time period.<sup>20</sup> As such, these conditions should be met before the team can proceed to Step 1 outlined below in Figure 2.
32. The counterparty-based assessment examines the FI's corporate practices in addressing exposure to high-GHG-emission sectors and management of risk from climate hazards. The first step of the assessment focuses on whether (i) the FI has in place a set of adequate institutional processes and/or

<sup>18</sup> This condition must be satisfied at the time of effectiveness of the WB operation. The condition does not apply to financing and financing agreement components provided, approved, or on the verge of approval at that date.

<sup>19</sup> Paragraph 27 of the World Bank Paris Alignment Method for Investment Project Financing: "The draft list of universally non-aligned activities covers (i) electric power generation from coal and peat, and (ii) activities directly supporting coal and peat extraction."

<sup>20</sup> The determination of this period will be specific to each FI and informed by objective factors, such as the local regulatory expectations, the characteristics of the FI, emerging industry standards or the availability of support from the WBG.

corporate practices consistent with Paris Agreement goals, especially related to credit allocation to firms, guarantee coverage of a portfolio of loans to firms, and investment practices, (ii) the FI’s portfolio has a low exposure to risks from climate hazards and carbon lock-in risks. If not, then the assessment proceeds to the next step, which requires the counterparty to incorporate measures to ensure the FI operation’s exposure to the identified risks will be addressed.

33. A summary of the counterparty-based assessment is included in Figure 2.

**Figure 2. Two-step approach for the counterparty-based assessment of alignment of FI lending**



34. The counterparty-based assessment follows two steps:

**Step 1: Assessment of counterparty’s climate risk materiality and corporate practices on Paris Alignment**

35. This step seeks to evaluate the extent to which the FI’s portfolio is exposed to risks from climate hazards and carbon lock-in risks. If so, the assessment continues to assess the adequacy of the FI institutional processes and/or corporate practices with regard to the mitigation goal of the Paris Agreement, and further to assessing climate change risks, especially related to credit allocation to firms, guarantee coverage of a portfolio of loans to firms, and investment decisions. FIs in WB client countries face an evolving regulatory landscape regarding requirements on climate change. In general, climate-related financial regulation is either not present or at a nascent stage. FIs in WB client countries will typically require support to integrate climate considerations into their operations and to align their corporate practices with the Paris Agreement. For these reasons, the assessment of the materiality of the exposure of the FI’s portfolio will require judgment based on the guidance provided by this note and relevant documents.

36. The counterparty assessment looks at four key aspects of the FI/apex facility:

- Governance and legal framework: assessment of the institution’s legal framework and governance structures for managing climate-related risks.

- Risk management: assessment of how the institution’s risk management processes identify and manage climate-related risks.
  - Operational framework: assessment of the impact of climate-related risks on the institution’s business strategy and financial planning.
  - Monitoring and evaluation: assessment of how management of climate-related risks are tracked, evaluated, and reported on.
37. The counterparty can be considered to have a **low exposure to carbon lock-in risks** if its portfolio consists of financing of activities and assets included in the list of universally aligned activities or other activities that are expected to have no or low impact on GHG emissions (as per the IPF method) or financing instruments where the transaction includes commitment to deliver climate change mitigation results (e.g., financing instruments that target green eligible assets).
38. The counterparty can be considered to have a **low exposure to risks from climate hazards** if its portfolio consists of financing activities that do not have large exposure to climate risk (e.g., working capital, mobile assets with limited exposure to risk from climate hazards, financial technologies), or consists of activities with entities that have in place processes and procedures with adequate management of risks from climate hazards, or consistent with a low-carbon and climate-resilient transition (e.g., because of engagement on another transaction).

**Step 2: Incorporate measures to manage material risks from climate hazards and carbon lock-in risks from FI operation**

39. If after the first step, it has been demonstrated that the FI’s portfolio has some exposure to risk from climate hazards and carbon lock-in risks and that the FI does not have adequate institutional processes and/or corporate practices in place to address those risks, then the FI will be required to adopt and implement a set of credible measures to ensure the financial flows supported by the WB operation are aligned with the goals of the Paris Agreement. These measures entail assessing and minimizing the impact of risks from climate hazards and carbon lock-in associated with the investments supported by the WB’s FI financing. They will be embedded in legal covenants and monitored as part of project implementation. The FI may be supported by technical assistance through the project’s activities if the project includes technical assistance for an apex and/or retail financial intermediaries.
40. For projects involving an apex facility, while the adoption of required measures is made at the level of the apex, it is expected that the agreed measures will apply to the subsequent lending of WB financing by the apex, through accredited retail FIs which will be Paris-aligned. To meet this expectation, the apex facility should also agree to communicate and monitor the implementation by retail FIs of agreed measures.
41. The measures adopted by the FI client (either the apex facility or single retailer, where relevant) will be informed by three factors: (i) level of exposure to GHG-emission intensive or climate-sensitive sectors; (ii) level of exposure to and materiality of risks from climate hazards and carbon lock-in risks; and (iii) the FI’s readiness to manage those risks. The level of risk exposure and materiality will determine the level of capacity that is required to manage the risks. This, combined with the counterparty’s existing climate risk management capacity, will determine the scope of the risk mitigation measures required.
42. The risk reduction measures should credibly describe how the FI will manage its exposure to risks from climate hazards and carbon lock-in risks, as identified in step 1, leading to Paris-aligned financial flows. This could take the form of setting the process and criteria for selection of investments and/or participating financial institutions, covering aspects such as portfolio composition, performance, and internal systems, or developing analytical tools or checklists to screen for and manage risks.





## Annex 2. Glossary

**Carbon lock-in:** The carbon lock-in occurs when an IPF operation supports reforms, investments, institutions, or behaviors that will persist in the future in an emission-intensive way and hinder the transition to low-GHG emissions development pathways even when alternatives to achieving the Development Objective(s) with lower GHG emissions become technically feasible and economically viable,<sup>21</sup> creating persistent barriers to the transition.

**Definition of Paris Alignment of a WB financing operation:** Paris Alignment means, with respect to WBG financial support for any country, public or private sector entity, as applicable, that new financial flows provided by the WBG will be consistent with the objectives of the Paris Agreement and a country's pathway towards low greenhouse gas emissions and climate-resilient development.<sup>22</sup> For these purposes, Paris Alignment is considered and assessed in the broader context of the WBG's Twin Goals, taking into account, among other things, equity concerns and the principle of common but differentiated responsibilities and respective capabilities, in light of countries' different national circumstances.

**Material risks** refers to risks that have a moderate, substantial or high risk of failure or unintended consequences, considering the likelihood of the risk materializing and the impact on the desired development outcome.

**Risks from climate hazards:** Risks from climate hazards arise from climate change impacts, including both gradual changes in temperature, precipitation, and seasonal patterns, and sudden-onset impacts such as extreme weather events (droughts, forest fires, hurricanes, floods), and are a function of hazard, exposure and vulnerability. As they relate to direct investments, climate hazards refer to the climate-related physical events or trends or their physical impacts; exposure refers to the presence of people, livelihoods, ecosystems, services, infrastructure, or assets in places and settings that could be adversely affected; and vulnerability is understood as the propensity to be adversely affected ([adapted from IPCC 2021](#)).

**Sinks:** Any process, activity or mechanism which removes a GHG from the atmosphere, thereby increasing the quantity of carbon stored/sequestered in a carbon pool ([adapted from IPCC 2022](#)). Terrestrial carbon conservation in which large volumes of carbon stored in natural forests, grasslands, and wetlands remain stored as carbon stocks is important for climate change adaptation and mitigation and is essential to increasing the resilience of ecosystems. The land use change that is likely to reduce carbon stocks may include conversion of forest or other wooded land, wetland, or peatland to any other use, and conversion of grassland to arable land.

**Transition risks** are the risks associated with transitioning to a low-GHG-emissions economy globally and in individual countries, which entails extensive policy, legal, technology and market changes to address mitigation actions related to climate change.

**Universally aligned activities** as defined in this PA method cover activities that (i) actively contribute to decarbonization consistent with the pathways aligned with the mitigation goals of the Paris Agreement under all circumstances and in all countries (for example, renewable energy with low lifecycle GHG emissions, electric and non-motorized urban mobility), or (ii) have a negligible impact on decarbonization as they do no harm to the countries' transition to long-term low-GHG emissions pathways under all circumstances and in all countries (for example, cash transfer schemes).

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<sup>21</sup> A lower-GHG emissions option in this context has a high degree of certainty that it will be economically viable in a world in which the goals of the Paris Agreement are met. A carbon lock-in can occur due to the technical, economic, or institutional factors of a project.

<sup>22</sup> The WBG will align all new operations starting July 1, 2023 (FY24). For IFC and MIGA, 85 percent of Board-approved real sector operations will be aligned starting July 1, 2023, and 100 percent of these starting July 1, 2025.

**Universally non-aligned activities** cover activities that are deemed to undermine the mitigation goals of the Paris Agreement for all intents and purposes under all circumstances and in all countries.

**WB financing operations** refer to DPF, IPF, and PforR financing instruments.