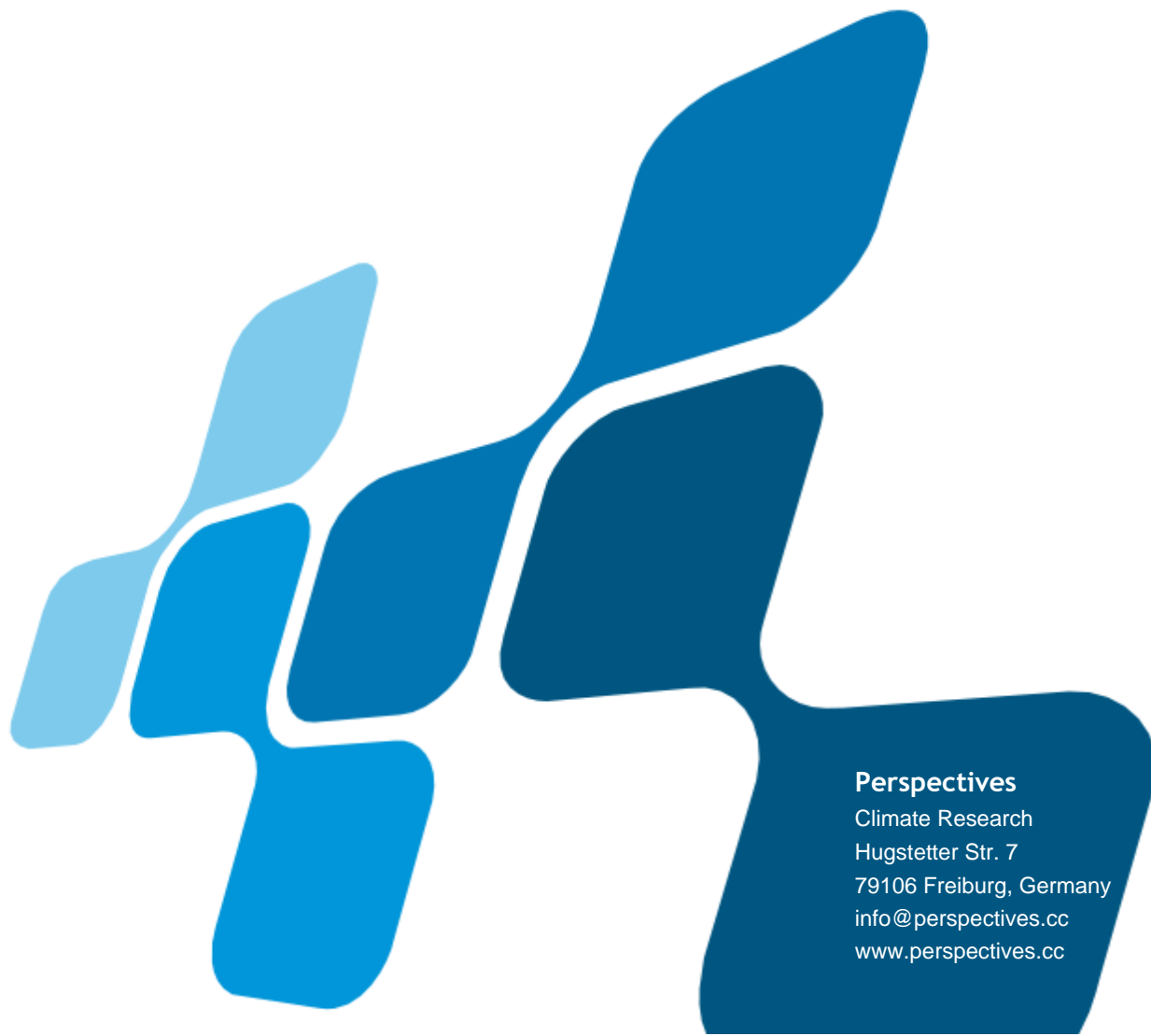




# Aligning Export Credit Agencies with the Paris Agreement

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## Executive Summary

**This study develops a first methodology to assess and compare export credit agencies (ECAs) and their governments regarding their alignment with the Paris Agreement.** ECAs provide guarantees or insurances to hedge against risks of an exporter or lender not being repaid, e.g., due to political instability, expropriation, or unexpected currency fluctuations. ECAs also act as direct lenders, provide earmarked project finance or even equity instruments. As such, ECAs are mandated to support national economic interests abroad.

**As a class of public finance institutions, ECAs have the ability to ‘crowd in’ private investments making them one of the potential levers of redirecting financial flows from carbon-intensive to low-carbon activities.** However, contrary to their commitments under Article 2.1c of the Paris Agreement and the latest recommendations of the research community – such as the Net Zero scenario by the IEA (2021) – many governments still provide multi-billion-dollar public support to fossil fuel investments abroad, not least through their ECAs. Moreover, lax international and domestic regulations on officially-supported export credits coupled with a severe lack of transparency on climate impacts of ECAs, lead to limited incentives to reform these institutions. Recent ECA-related announcements by the EU, the UK and the US indicate that the political momentum for the reform is building up. It will now be crucial to translate these announcements into practice and assess the progress towards Paris alignment of ECAs.

In this light, **Perspectives Climate Research developed a first dedicated Paris alignment methodology for ECAs.** The development of the methodology was based on benchmarking of existing Paris alignment approaches for financial institutions, which allowed to select and tailor the most relevant components of these approaches to the specificities of ECAs. Specifically, the methodology builds on E3G’s Climate Tracker Matrix for Public Development Banks – which was deemed highly relevant for ECAs – while fine-tuning the assessment indicators and adding weights to the assessment dimensions. **The methodology thus permits to assess and compare individual ECAs and their respective governments across the following five weighted dimensions:**

1. **Transparency:** Financial and non-financial disclosures (20%)
2. **Mitigation I:** Ambition of fossil fuel exclusion or restriction policies (40%)
3. **Mitigation II:** Climate impact of and emission reduction targets for all activities (20%)
4. **Climate finance:** Positive sustainable development contribution (10%)
5. **Engagement** (10%)

Depending on how well an ECA scores across these dimensions, a degree of Paris alignment is attributed among four possible labels (‘Unaligned’, ‘Some Progress’, ‘Paris aligned’ or ‘Transformational’). The methodology was ‘road-tested’ on the German ECA Euler Hermes, which was rated as ‘unaligned’. As a next step, the methodology will be applied to a sub-set of selected G20 ECAs by the end of 2021 with a view of assessing all G20 countries in 2022. **The results of this exercise will feed into policy discussions on reforming the export finance system** – both on the international level, e.g., through the OECD Arrangement on officially-supported export credits, and on the level of national ECA policies – with the aim of fully aligning export finance with the Paris Agreement.

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## Abbreviations

CCS	Carbon Capture and Storage
CDP	Carbon Disclosure Project
CFSU	Coal-Fired Electricity Generation Sector Understanding
DFI	Development Finance Institution
ECA	Export Credit Agency
EDC	Canadian Export Development Corporation
EKN	Swedish Export Credit Corporation
ESG	Environmental, Social and Governance
EXIM	United States Export-Import Bank
FI	Financial Institution
GHG	Greenhouse gas
I4CE	Institute for Climate Economics
IEA	International Energy Agency
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
ITR	Implied Temperature Rise
MDB	Multilateral Development Bank
NDC	Nationally Determined Contribution
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
PAWG	Paris Alignment Working Group
PCA	Portfolio Coverage Approach
PDB	Public Development Bank
RCP	Representative Concentration Pathway
SBT	Science Based Target
SBTi	Science Based Target Initiative
SEK	Swedish Export Credit Agency
SDA	Sectoral Decarbonization Approach
TCFD	Task Force on Climate-related Disclosure
TRA	Temperature Rating Approach
TWM	Temperature warming metrics
UKEF	United Kingdom Export Finance
UNGC	United Nations Global Compact
WRI	World Resources Institute
WWF	World Wide Fund for Nature

## 1. Introduction

**In order to achieve the climate change mitigation and adaptation objectives of the Paris Agreement, massive reorientation of financial flows is required.** Article 2.1c of the Paris Agreement reflects the pledge to make “*finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*” (UN 2015). The urgency of this pledge is underscored by numerous publications from the scientific and policy-making communities (e.g., IPCC 2018; UNEP 2020; Bhattacharya et al. 2020; IEA 2021) and an increasing number of governments announcing Net Zero goals by 2050 or even earlier (ECIU 2021). The gap between the Net Zero rhetoric and reality however remains vast, as recent fossil fuel production data show (SEI et al. 2020). According to the latest Net Zero report by the International Energy Agency (IEA), exploitation and development of new oil and gas fields must stop immediately and new coal-fired power stations cannot be built to safely meet the goal of net zero emissions by 2050 (IEA 2021). This has direct implications for the portfolios of financial institutions (FIs) that will have to shift accordingly away from fossil fuel activities in the coming years.

**The growing public interest in the alignment of FIs with the Paris Agreement has given rise to a number of approaches to evaluate or measure the ‘Paris alignment’ of specific FIs.** This includes approaches by actors from within the financial system, such as the Paris Alignment Working Group (PAWG) at Multilateral Development Banks (MDBs) or a variety of temperature warming metrics (TWMs), and from observer organizations like the Climate Tracker Matrix for Public Development Banks (PDBs) by the environmental think-tank E3G or the Science Based Targets initiative (SBTi). However, none of these methodologies are fit for assessing the Paris alignment of Export Credit Agencies (ECAs) due to the specificities of their organizational structures, mandates and financial instruments employed.

**As a class of public finance institutions, ECAs have the ability to ‘crowd in’ private investments making them one of the potential levers of redirecting financial flows from carbon-intensive to low-carbon activities.** However, contrary to their commitments under Article 2.1c of the Paris Agreement and the latest recommendations of the research community – such as the Net Zero scenario by the IEA (2021) – many governments still provide multi-billion-dollar public support to fossil fuel investments abroad, not least through their ECAs. Moreover, lax international and domestic regulations on officially-supported export credits coupled with a severe lack of transparency on climate impacts of ECAs (Shishlov et al. 2020), lead to limited incentives to reform these public finance institutions.

**In this light, this report proposes a methodology to assess the alignment of ECAs with the Paris Agreement<sup>1</sup> with the aim of informing the policy debate on both international – e.g. the OECD – and national levels.** To achieve this, section 2 provides background information on ECAs, including their relevance for the Paris Agreement. Section 3 provides insights into existing approaches to ‘Paris alignment’ for FIs. Section 4 presents the structure and applicability of the proposed assessment methodology for ECAs. Section 5 concludes and provides an outlook on the application of the methodology to improve transparency and spur necessary reforms in the export finance system.

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<sup>1</sup> In the remainder of the study referred to as ‘methodology’ or ‘assessment methodology’.

## 2. Export Credit Agencies and climate action

### 2.1. Export Credit Agencies: definition, operations and historical role

**ECAs provide insurance, guarantees or loans for the export of goods and services from a domestic creditor economy to a debtor economy abroad** (IMF 2014). Their legal status can be characterized as either a private company that acts on behalf of governments or a government agency itself (OECD 2021b). The governance structure varies significantly among major ECAs. For instance, in the case of Germany, the Euler Hermes SA, a subsidiary of the publicly held Allianz SE, is a private company that acts under the official mandate of German Ministry of Economic Affairs and Energy (BMWi). Other countries also mandate private or semi-private companies to perform their export credit and insurance operations, including Italy and the Netherlands. Conversely, United Kingdom Export Finance (UKEF) is a government department, while the United States Export-Import Bank (EXIM) and Canadian Export Development Corporation (EDC) are government-owned banks or corporations. Ownership and governance structures are thus highly heterogeneous among ECAs and typically the product of the historical development of national export finance systems.

**Despite strong differences in the organizational structures of ECAs, their mandates and financial instruments tend to be very similar. The purpose of an ECA is to promote trade abroad and increase the competitiveness of national companies in foreign markets** (Shishlov et al. 2020; OECD 2021b). Instruments of ECAs are typically referred to by the term 'officially supported export credits', an expression which includes several financial services provided by ECAs, notably:

- The extension of loans with differing repayment terms, e.g., for direct project financing or financial intermediaries;
- The provision of conditional credit lines, e.g., guarantees that funds will be made available under certain conditions;
- The provision of insurance cover or guarantees which hedge against risks of an exporter or lender of not being repaid, e.g., due to political instability, expropriation or unexpected currency fluctuations;
- Equity instruments, e.g., provision of shareholder funds; and
- Trade-related aid which may be tied (or not) to the procurement of goods and/or services from the donor country or affiliated countries where the financing instrument has a concessionality level greater than zero.

The Berne Union<sup>2</sup>, the largest association for the export credit and investment insurance industry worldwide, reports for 2019 that the largest share of export credits issued are short-term credits, i.e., credits with a repayment period of less than two years (Berne Union 2019). Granular individual reporting or joint reporting for 'clubs' of ECAs is virtually absent, with the exception of the OECD which routinely publishes non-granular aggregate trends of its member ECAs on a number of topics (OECD 2021a).

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<sup>2</sup> The Berne Union aggregates some 80+ institutions, including non-government backed insurers. This means that among the subset of government-backed ECAs, the shares of financing instruments may vary.

**Some ECAs claim to operate as ‘insurers of last resort’, i.e., as public finance institutions that only provide financial services for projects that the private sector will not undertake** (e.g., see Eximbanka 2016). Others are generally open to all exporters, yet may only cover exports where the majority of value added of the export good or service takes place domestically (e.g., Euler Hermes). Revenues are generated by risk premiums or interest rates paid by client companies to the ECA. Notwithstanding pressure from private competitors or internal budgetary regulations, ECAs typically have a for-profit orientation. **As government-backed finance institutions, ECAs have the important ability to de-risk business operations.** This is why, for instance, commercial banks tend to offer beneficial terms and conditions when an ECA backs a project. Without the risk mitigation provided by ECAs, many projects would not come to life at all (Wenidoppler et al. 2017).

**Not only can such de-risking enable projects in the first place, it can also increase funding streams from public and private sources.** This ‘crowding-in’ effect of co-finance can be significant, although no commonly accepted metrics to attribute crowded-in finance by ECAs exist. In the context of climate co-finance, MDBs refer to ‘co-finance’ as “the volume of financial resources invested by other public and private external parties alongside MDBs for climate mitigation and adaptation activities” (EIB 2020, p.5). For the year 2019, MDBs reported crowding in of US\$ 102 billion of ‘climate co-finance’, almost twice the amount of climate finance directly committed to or managed by MDBs (EIB 2020). This statistic shows the order of magnitude that co-financing can attain and underscores the ability of ECAs – which (similarly to MDBs) can de-risk business operations to re-allocate more capital flows towards societally desirable ends than directly under MDB management.

**ECAs are institutions that since their creation have reflected the strategic foreign policy interests of their home countries, including economic, geopolitical or military interests.** Historically, ECAs played a crucial role for national companies to be globally competitive post-World War I and have substantively contributed to export-led economic development models (e.g. Wenidoppler et al. 2017; Saghir 2020). In contrast to Development Finance Institutions (DFIs), the mandates of ECAs typically do not include developmental ends, but are limited to national economic interest. With increasing recognition of the social, climate and broader environmental impacts of globally integrated value chains and the role of export finance in particular, such narrow mandates of ECAs have recently been called into question (e.g., Shishlov et al. 2020).

## 2.2. Export Credit Agencies and their relevance for the Paris Agreement

**ECAs are a group of FIs that are particularly relevant for achieving the objectives of the Paris Agreement for several reasons. First of all, as publicly backed institutions, ECAs bear the political mandates and international commitments of their respective governments including those under international treaties such as the Paris Agreement and particularly its Article 2.1c.** A recent legal opinion commissioned by Oil Change International (OCI) noted that “*on the basis of the best available scientific evidence [...] it appears that export credits which support fossil-fuel related projects/activities are not in principle consistent with the pathways set out in Article 2(1)(c), the temperature goals laid down in Article 2(1)(a) or the mitigation requirements under Article 4 of the Paris Agreement*” (Cook and Viñuales 2021, p.3). Moreover, ECAs should “*proactively avoid locking-in fossil fuel-related emissions [...]*” (*ibid.*). The IEA (2021) underlined in its 2021 flagship report on Net Zero by 2050 that no new oil and gas fields need to be approved and no new coal mines or mine extensions



should be built. While some governments do react with rhetoric promising necessary reforms in their export finance systems, e.g. the Export Finance for Future (E3F) coalition, it remains unclear how this translates into practice and how it will be reflected in climate policies of ECAs (see section 2.3 below).

**Second, given the financial weight of these institutions, the agency of ECAs is highly relevant for redirecting financial flows away from fossil fuels and towards low-carbon activities.**

Outstanding commitments of all Berne union member ECAs totalled some US\$ 2.47 trillion in 2018 (Berne Union 2018).<sup>3</sup> This exceeds the total annual investments of all PDBs, including the major MDBs, in the same year and will likely do so in 2019 (Wenidoppler et al. 2017; Berne Union 2019; EIB 2020).<sup>4</sup>

**While the outstanding commitments of ECAs and operations of PDBs may not be 100% comparable due to the different nature of their financial products, these numbers demonstrate the importance of ECAs in terms of their financial weight.** In the absence of comparable and comprehensive data on the climate impact of ECA portfolios (e.g., by reporting on scope 1-3 emissions), it is in most cases necessary to look at proxies, such as financing provided to fossil fuel-related activities, or subsets of institutions that have somewhat higher reporting standards. For instance, between 2016 and 2018, ECAs from members of the OECD reported US\$ 5.7 billion of officially supported export credits earmarked as climate finance (OECD 2020a). Over the same period of time, these same ECAs provided US\$ 12.85 billion to coal-, oil, or natural gas-fired electricity generation projects (OECD 2021a). **Looking at G20 member ECAs, DeAngelis and Tucker (2020) found that between 2016 and 2018 some US\$ 40.1 billion were provided annually as support to fossil fuel projects (not limited to electricity generation).** A staggering 79% came from only four countries: Canada (more than US\$ 10 billion), Japan (more than US\$ 8 billion), China (close to US\$ 8 billion) and South Korea (more than US\$ 5 billion). Note that the period 2016 to 2018 notably excludes the United States Export-Import Bank (EXIM) which lacked for more than three years a quorum necessary to authorize significant transactions (EXIM 2019). EXIM's full financing capacity was restored in 2019 and the bank authorized a US\$ 5 billion direct loan to a liquified natural gas (LNG) project in Mozambique as well as a US\$ 18 billion loan guarantee for the export of oil and gas services equipment to Argentina (EXIM 2019 a-b; EXIM 2020). **The combined financing of fossil fuel-related activities by G20 and OECD member ECAs thus likely exceeds fossil fuel support by other public finance institutions, such as MDBs.**<sup>5</sup> **Overall, this underscores the enormous leeway for ECAs to shift public resources from climate-adverse to climate-friendly activities.**

**Third, ECAs have been heavily criticized for their lack of transparency, especially when compared to other public finance institutions (Bankwatch 2021).** While there have been important

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<sup>3</sup> In 2019, this figure rose to US\$ 2.83 trillion (Berne Union 2019). Outstanding commitments is a stock parameter that refers to the total amounts under cover (i.e. insurance, guarantees, loans etc.) by members at the end of the financial year. The Berne Union umbrella association has 84 public, private and multilateral member institutions active in credit and investment insurance, the traditional business field of ECAs. We use 2018 data for comparability with the most recent financing data on PDBs by AFD (2021).

<sup>4</sup> Financial data for all PDBs in 2019 is not yet available from the Finance in Common database (AFD 2021). Total annual investments of PDBs (excluding PDBs labelled as 'import/export') amounted to some US\$ 2.08 trillion in 2018, of which total MDB operations (own accounts and externally managed resources) amounted to some US\$ 0.15 trillion in 2018, or US\$ 0.197 trillion in 2019 (laDB 2019; EIB 2020). Note that due to varying definitions and nature of operations, Berne Union and AFD reported data may only have limited comparability.

<sup>5</sup> Annual contributions to fossil fuel projects by the nine major MDBs are estimated to stand at some US\$ 32.4 billion between 2016 and 2018 (Oil Change International 2021).

data collection exercises undertaken by NGOs like Oil Change International<sup>6</sup> or the Natural Resources Defense Council<sup>7</sup>, the lack of comprehensive data and reporting is still a major obstacle for assessing climate impacts of ECAs' activities. For example, data in the 'Shift the Subsidies' database by Oil Change International (2021) likely under-estimates the total financing of all fossil value chains through ECAs as no public information is available on the financing volumes by Argentina, Saudi Arabia and Turkey (DeAngelis and Tucker 2020). The amount of peer-reviewed literature on ECAs and their climate impacts is also minuscule when compared to the attention received by other public finance institutions, such as MDBs (Shishlov et al. 2020).

**Finally, emissions financed or covered through ECAs outside their national territory are typically not part of domestic GHG accounting.** At the moment, GHG inventories follow the territorial principle and the success of domestic climate action is thus measured with a production-oriented approach. This, however, excludes emissions from domestic companies caused, financed or covered abroad. With a number of open questions (e.g., the question of attribution of emissions to a financing entity), this leads some observers to argue that the current GHG accounting approach results in misleading claims of absolute decoupling of GHG emissions from economic growth, even in the Nordic countries (e.g., see Tilsted et al. 2021). This aspect may be of particular relevance **to prospective Biennial Transparency Reports (BTRs) required for Annex I Parties as of 2024 under the Enhanced Transparency Framework (ETF) of the Paris Agreement.**

### 2.3. Existing climate commitments of Export Credit Agencies

**Existing international and domestic regulations on officially-supported export credits provide little incentive decarbonize ECAs' portfolios (Shishlov et al. 2020).** At international level, the OECD Arrangement on officially-supported export credits provides a framework for export credits with the purpose of "orderly use of officially supported export credits" (OECD 2020b, p. 10). The OECD Arrangement includes a Sector Understanding for coal-fired electricity generation (CFSU) projects which provides financing terms and conditions for this type of activity, including maximum repayment terms and maximum emission thresholds per kWh depending on unit size and geographical location of the intended coal power plant (*ibid*, p. 109). As a result, most OECD member ECAs limit their climate policies to only halting financing for new coal projects or at least restricting it to the CFSU, despite its out-datedness, which is evident given the need to halt financing of new coal power plants (or extractive activity) altogether (IEA 2021). Despite the existence of a dedicated CFSU, its restrictions can be described as extremely lenient. For example, according to the working definition of the Technical Working Group (TWG) on Sustainable Finance by the European Union, the production of one kWh of electricity should not exceed the technology-agnostic benchmark of 100 gCO<sub>2</sub>e per kWh (declining threshold, with reductions every five years to reach 0 gCO<sub>2</sub>e per kWh by 2050) to be eligible under the European label 'sustainable'.<sup>8</sup> Meanwhile, the permitted emission intensities for the CFSU range from up to 750 gCO<sub>2</sub>e/kWh for large units (>500 MW) and to more than 850 gCO<sub>2</sub>e/kWh in IDA-eligible countries for smaller units (<300 MW). This lenience can be partly be explained by the limits of club-

<sup>6</sup> See for instance: DeAngelis and Tucker (2017, 2020).

<sup>7</sup> See for instance: Chen and Schmidt (2017).

<sup>8</sup> Note the ongoing negotiations on this emission threshold, especially in the context of the 'sustainable' use of natural gas (e.g., European Commission 2019; Giegold et al. 2021).

based climate regimes, in which powerful outsiders like China are feared to ‘jump’ into profitable and geopolitically important market segments if others suddenly withdraw (Liao 2020). Furthermore, the OECD Arrangement does not impose financing restrictions for oil and gas projects and does not apply to the entire value chains related to fossil fuels. Beyond the OECD Arrangement, committing to international environmental and social (E&S) standards does not lead to reduction or phase out of fossil fuel financing (Shishlov et al. 2020). A report by UNEP argues that financial institutions such as ECAs commit to standards such as the Equator Principles for reputational reasons and risk management rather than to contribute to a change in their business (UNEP Inquiry 2016).

**At the same time, recent years have also seen some momentum regarding export finance climate policies in several countries.** In the EU, in 2018, the European Ombudswoman asked the European Commission to revise its reviewing procedure of ECAs, with particular regard to human rights and environmental aspects (European Ombudsman 2018; Heuer 2018). While this process is still ongoing, calls for clear benchmarks to assess ECA performance are becoming louder (e.g., Antonowicz-Cyglicka 2020). Under the new Biden administration in the US, an Executive Order was signed that foresees at least the end of “international financing of carbon-intensive fossil fuels-based energy”, i.e. coal and oil (The White House 2021). In this order, the US EXIM is explicitly mentioned, yet the wording leaves the door open for less carbon-intensive fuels, such as natural gas, or equipment needed in fossil value chains. The commitments made by Swedish and British ECAs have been more ambitious. The Swedish Export Credit Agency (SEK) and the Swedish Export Credit Corporation (EKN) have exemplarily made explicit commitments to cease support to *all types* of fossil fuel projects (coal, oil and gas) by 2022. Moreover, Sweden showcases its international leadership concerning climate change through the strategic orientation of their ECAs and the role of the export finance system for the climate transition at large (EKN 2020). Similarly, in the run up to the Climate Ambition Summit the UK government announced an end for direct support for the fossil fuel energy sector overseas (Prime Minister's Office 2020).

**While there seems to be political momentum building around decarbonizing ECAs, many observers point to the lacking speed and ambition of this process**, with many NGOs, for example, shunning the recently launched Export Finance for Future (E3F) Coalition for its lacking ambition<sup>9</sup>. These calls are supported by the warning of potential litigation if governments fail to phase out fossil fuel finance from their officially supported export credits (Cook and Viñuales 2021). The authors also recommend that governments take the following immediate steps with regards to their ECAs (van der Burg 2021):

- Phase out finance for new fossil fuel-related projects/activities and do not increase the financing of existing ones;
- Decrease existing support for fossil fuel-related projects and activities within a clear, scientifically-based time-frame;
- Proactively avoid locking in fossil fuel projects and activities which may use up a significant part of the remaining carbon budget;

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<sup>9</sup> <http://priceofoil.org/content/uploads/2021/04/Statement-on-Export-Finance-for-Future-E3F-Coalition.pdf>

- Adopt and proactively implement adequate procedures to assess the carbon footprint of potential projects; and
- Implement performance guidelines to monitor ECA activities in the context of the climate emergency.

**The recently published flagship IEA report supports the need for a complete phase out of new investments in fossil fuel supply infrastructure if governments are serious about achieving their net zero GHG emissions targets by 2050** (IEA 2021). This includes new coal, oil and natural gas fields. Net-zero targets are in line with a number of IPCC 1.5°C warming pathways with limited or no overshoot (*ibid.*). Against this background, the OECD Arrangement appears clearly outdated since it only limits ECA financing for coal-fired power as described above. The ‘Arrangement’ comprises no financing restrictions at all for oil or gas projects and its associated infrastructures or equipment, which would be necessary to create a level playing field of export finance in line with the objectives of the Paris Agreement (Shishlov et al. 2020; Cook and Viñuales 2021). **Specifically reforming the OECD Arrangement against this background is of particular importance – as well as successful environmental diplomacy beyond the OECD, most notably with China.**

### 3. Background of the Paris alignment methodology

#### 3.1. Conceptual approach: What is ‘Paris alignment’?

**Definitions of Paris alignment for FIs typically revolve around the Article 2.1c of the Paris Agreement which aims to make “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” (UN 2015).** As of today, there is no widely accepted consensus on what this means in practice and several conceptual and methodological approaches exist (Climate Policy Initiative 2019; Cochran and Pauthier 2019; Larsen et al. 2018; OECD 2019; Institut Louis Bachelier et al. 2020). Broadly, the existing literature on Paris alignment can be divided into ‘portfolio alignment’ and ‘institutional alignment’ approaches (see section 3.1). The methodology presented in this study (see section 4) follows the logic of ‘institutional alignment’ and builds largely on the conceptual work by the Institute for Climate Economics (I4CE) (Cochran and Pauthier 2019) as well as the ‘Paris alignment cookbook’ (Institut Louis Bachelier et al. 2020). Both publications offer valuable foundations of what “Paris alignment” can mean, including its core dimensions of stated ambition regarding the scope of activities, the scale of action, the critical nature of time horizons as well as available assessment tools and underlying assumptions.

#### **Box 1: Differences between portfolio and institutional alignment**

##### **Portfolio alignment**

Targeted analysis of the operational level of FIs, e.g., the carbon footprint of asset classes and their compatibility with a certain temperature trajectory linked to certain GHG emissions pathway. Temperature warming metrics (TWM) are typically part of a "portfolio alignment" approach (see section 3.2).

##### **Institutional alignment**

Broader approach to the operational and organizational level of FIs, considering next to carbon footprints of portfolios also strategies, internal activities, external engagement and reporting or transparency. The most prominent examples of this approach are provided by the PAWG at MDBs, whose six building blocks are also used as a basis for E3G’s Public Bank Climate Tracker Matrix (see section 3.2).

**Currently, there is no widely accepted common standard or definition of what ‘Paris alignment’ means in a specific institutional or sectoral context.** Hence, attempting to provide such definition will always depend on the normative underpinning of the actor that is doing so. In this light, FIs can currently choose from a variety of available concepts and associated methods depending on their individual interest, which can potentially obfuscate weak spots (e.g., see Gabor (2020) for a similar discussion of public vs. private ESG taxonomies). This is why, among others, Institut Louis Bachelier et al. (2020) call for a public-led development of conceptual underpinnings and minimum standards underpinning the label ‘Paris alignment’ to achieve conceptual and methodological convergence. This would help avoid risking the dilution of ambition in private interests and attempts to legitimize prevailing activities at a portfolio and institutional level that undermine, rather than support, the overarching objectives of the Paris Agreement.

Having reviewed the existing conceptual approaches to Paris Alignment of FIs, we propose a set of conceptual premises that will serve as a normative underpinning of the ECA methodology (Table 1).

**Table 1: Conceptual premises for Paris alignment of Export Credit Agencies**

Conceptual premise description	Relevance for ECA methodology
<b>Premise 1: Comprehensive scope of action</b> <ul style="list-style-type: none"> <li>Directly or indirectly support activities that are compatible with low GHG and climate-resilient development</li> <li>Take into account the entire value chain, both at national and global level</li> </ul>	<ul style="list-style-type: none"> <li>➔ Look at both direct and indirect financing instruments</li> <li>➔ Consider not only downstream activities, but also mid- and upstream activities (i.e., the entire value chain), enabling or facilitating conditions and inputs (e.g., also examine exports that <i>enable</i> emission-intensive activities, such as the export of capital goods or high-tech in emission intensive sectors)</li> </ul>
<b>Premise 2: Long-time horizons to guide immediate actions</b> <ul style="list-style-type: none"> <li>Consider carbon lock-in effects that illustrate trade-offs between near-term and long-term climate targets</li> <li>Focus on Net Zero GHG emissions pathways rather than incremental emissions reductions</li> </ul>	<ul style="list-style-type: none"> <li>➔ Need to update the methodology in accordance with latest publications in science that inform decision making on globally available carbon budgets for 1.5°C</li> <li>➔ Speed of action is decisive. i.e., need to evaluate with priority stated timelines of, for instance, new fossil fuel financing phase outs, which according to IEA (2021) has to be immediate</li> <li>➔ Consider unintended consequences of alternatives to fossil-based electricity generation (e.g., nuclear and large hydro)</li> </ul>
<b>Premise 3: Ambitious scale of contributions</b> <ul style="list-style-type: none"> <li>Consider national and supranational scale of impacts</li> <li>Halt support for non-consistent activities</li> </ul>	<ul style="list-style-type: none"> <li>➔ Prioritize / identify 'non-consistent' activities (<i>a priori</i>)</li> <li>➔ Consider impact of ECAs 'as a system'</li> <li>➔ Need for high ambition: Where the 'transformational' lies within the 'possible', this should also be required from institutions, especially public sector institutions</li> <li>➔ Highlight potential solutions to seemingly <i>unresolvable</i> conflicting objectives, such as between domestic employment or competitiveness and the ambitious phase out of fossil fuel value chains</li> </ul>
<b>Premise 4: Take into account the overarching objectives of the Paris Agreement</b> <ul style="list-style-type: none"> <li>Difference between alignment of activities with the objectives of the Paris Agreement and its <i>temperature</i> objectives</li> </ul>	<ul style="list-style-type: none"> <li>➔ Emphasis of the Paris Agreement of the "<i>intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty</i>"</li> <li>➔ Consider, where possible, and without deviating the attention from the core objectives of the Paris Agreement, sustainable development aspects</li> </ul>
<b>Premise 5: Follow the precautionary principle</b> <ul style="list-style-type: none"> <li>Imperative to <i>safely</i> achieve 1.5°C of global warming</li> <li>Need of conservativeness of the methodology in all circumstances, which severely limits the choice of <i>acceptable</i> temperature warming trajectories</li> </ul>	<ul style="list-style-type: none"> <li>➔ Choices for which no unambiguous evidence base exists should follow the highest degree of conservativeness</li> <li>➔ Use as reference scenario, where possible, those illustrative IPCC pathways with the lowest uncertainty involved, i.e., the P1 scenario with limited or no overshoot (IPCC 2018) or the IEA Net Zero scenario (IEA 2021)</li> <li>➔ Precautionary approach to technologies with high uncertainty or potentially other socially and environmentally harmful unintended consequences like carbon capture and storage (CCS) or nuclear energy</li> </ul>

Source: authors based on Cochran and Pauthier (2019) as well as Institut Louis Bachelier et al. (2020)

### 3.2. Insights from existing Paris alignment methodologies

In order to develop the assessment methodology for ECAs, selected approaches to evaluate the Paris alignment of FIs were reviewed and analysed with regards to their relevance and applicability to ECAs. The selection focused on approaches based on clearly stated metrics and/or indicators. We did not consider generic climate-related principles to which ECAs (or other FIs) can adhere to. While important, adherence to such principles, such as the Equator Principles, the principles



laid out by E3F, the Environmental and Social Performance Standards required by the International Finance Corporation (IFC), the OECD standards and regulations or the recommendations by the TCFD cannot alone serve as a sufficient condition for 'Paris alignment' since their impact on the actual alignment of the ECA's portfolios with the Paris Agreement is marginal (Shishlov et al. 2020).

**The review included the approach of the Paris Alignment Working Group (PAWG), a joint working group composed of nine major MDBs<sup>10</sup>, E3G's Public Development Banks' Climate Tracker Matrix<sup>11</sup>, the Science-Based Targets initiative (SBTi)<sup>12</sup> and several temperature warming metrics (TWMs) (e.g., Blood and Levina 2020).** Table 2 provides a high-level comparative overview of these approaches. Despite the vague information provided on underlying criteria and metrics by the PAWG, the MDB joint approach was included as a major case of the methodology development at hand. This is due to the importance and proximity of MDBs to the export finance system and the usefulness of the six building blocks developed by the PAWG. As of June 2021, however, no concrete lists of activities, indicators or criteria sets have been released. The MDBs have already anticipated that while a robust methodology will be developed jointly, individual MDBs will retain some room to manoeuvre regarding its implementation and timeline (World Bank 2018). This, in combination with the low speed of implementation as well as the vagueness of the proposed material, has been criticized by observer organizations (e.g., Germanwatch 2020). As demonstrated by E3G (2018), the six building blocks by the PAWG can be narrowed down to concrete criteria and benchmarks. Since not all building blocks are deemed useful or applicable in equal manner to ECAs, we selectively use elements of the PAWG and the E3G approaches.

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<sup>10</sup> The nine MDBs are: The African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group (IBRD, IFC, MIGA).

<sup>11</sup> <https://www.e3g.org/matrix/>

<sup>12</sup> A partnership between the Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

Table 2: Comparative assessment matrix of four approaches to assessing 'Paris alignment'

	PAWG	E3G	SBTi-Finance	TWMs
<b>Approach to alignment</b>	Institutional (assessment)	Institutional (assessment)	Portfolio (measurement/assessment)	Portfolio (measurement)
<b>Institutions targeted</b>	MDBs	PDBs	FIs	Fis
<b>Assessment outcomes</b>	'aligned', 'non-aligned'	'not aligned', 'some progress', 'Paris-aligned' 'transformational'	Individual SBTs 'validated' or 'non-validated' by SBTi	Typically 'aligned' (<1.5° or <2°) or 'non-aligned' (>1.5° or >2°)
<b>Building Block 1 (BB1): Mitigation</b>	Positive/negative lists of activities; "no regret" tests; consistency with national NDCs / LEDS	Energy access and fuel poverty; Energy efficiency strategy; standards and investment; Fossil fuel exclusion policies; GHG accounting and reduction; Shadow carbon pricing	GHG-accounting; Three distinctive methods by asset class and scope of emissions (Sectoral Decarbonization Approach, SBT Portfolio Coverage, Temperature ratings)	Assessment of a borrower's projected production with a selected temperature warming trajectory
<b>BB2: Climate risk, resilience and adaptation</b>	Initial climate risk screenings; Mainstreaming Principles	Nature-based solutions; Climate risk, resilience and adaptation	-	-
<b>BB3: Climate-relevant finance indicators</b>	Scale of climate finance and technical support; Mobilise private sector investments	Promotion of green finance; Non-fossil to fossil energy ratios; Climate finance	-	-
<b>BB4: Strategy, Engagement and Policy Development</b>	Support NDC/LEDS revision; Consistency with SDGs; Engagement in collaborative partnerships, outreach and knowledge-sharing initiatives	Country-level work; Technical assistance for implementing Paris goals	Partly comprised by SBT Portfolio Coverage (Fis commit to engage with their clients)	-
<b>BB5: Reporting</b>	Harmonization of reporting efforts among members; Build on work on climate finance	Transparency of climate finance	SBTi-based tools developed based on the recommendations of the TCFD: SBTs requires progress reporting on SBTs	-
<b>BB6: Internal Activities</b>	Consistency of inhouse operations and policies	Climate strategy and overarching strategy; Integration of climate in sectoral strategies; Institutional leadership	-	-

Source: authors

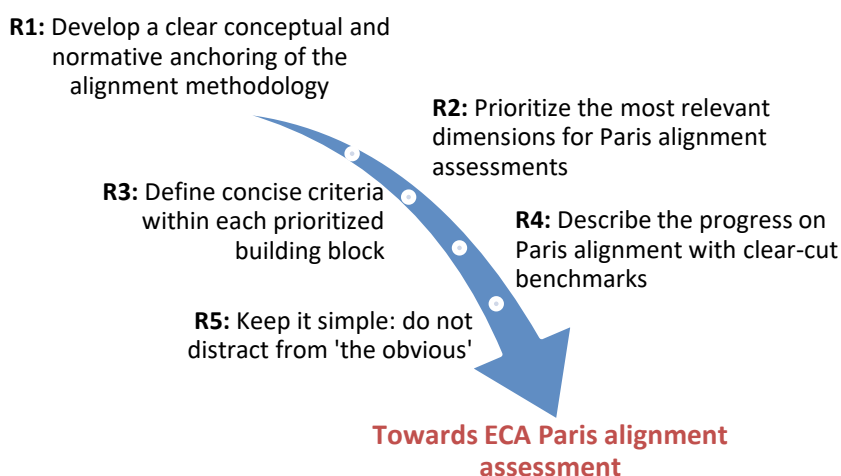


### 3.3. Recommendations for the Paris alignment methodology for Export Credit Agencies

**Building on the existing practical and conceptual work, we developed a set of recommendations that we followed when developing the Paris alignment methodology for ECAs** (Figure 1). First of all, we developed a conceptual and normative anchoring of the Paris alignment methodology (see Table 1 above). This served to ensure the necessary ambition of the benchmarks underlying the proposed approach to ‘Paris alignment’. We argue that any definition of Paris alignment without such conceptual and normative considerations misleadingly depicts a depoliticized world (Mouffe 2013). Indeed, climate change compels actors to take decisions under uncertainty rather than calculable risk (see e.g., European Commission 2018). This implies conservative choices of benchmarks attributing labels of ‘Paris alignment’, which should follow consensus in the scientific community, and where absent, the most conservative approach. For example, from the IEA (2021) recommendation of “no investment in new fossil fuel supply projects”, we deduct that any operation of an ECA alongside the extension of the fossil fuel supply chain (e.g., the export of capital goods used in extraction, exploration or electricity generation) cannot be in line with the Paris Agreement.

We then prioritized the most relevant dimensions among the six building blocks of Paris alignment suggested by the PAWG at MDBs. Most notably, we excluded two assessment dimensions (‘internal activities’ and ‘adaptation and climate-resilient development’) and attempted to tailor the remaining building blocks to the specificities of ECAs. Importantly, and unlike all other reviewed methodologies, we suggest to use weights as a further prioritization mechanism. This points to action in dimensions we consider as the most urgent (see section 4.1). Such approach goes hand in hand with the recommendation to “not distract from the obvious”, i.e. the continued public support for fossil fuel value chains by ECAs despite mounting evidence of its incompatibility with the objectives of the Paris Agreement. We then defined concise criteria and clear-cut benchmarks for each label of ‘Paris alignment’ in each dimension (see section 4.4). Overall, we aimed at keeping the methodology practical, understandable and simple, focusing on the most relevant aspects of Paris alignment of ECAs.

**Figure 1: Recommendations for the dedicated Paris alignment assessment methodology for Export Credit Agencies**



Source: authors

## 4. Paris alignment methodology for Export Credit Agencies

### 4.1. Overview

The methodology to assess the alignment of ECAs with the Paris Agreement presented here conceptually and practically builds on existing work that has been undertaken by various actors to evaluate the Paris alignment of other FIs. As described above, the methodology most notably builds on the structure and rationale of the Public Development Banks' Climate Tracker Matrix ran by E3G, which, in turn, builds on the six building blocks of the MDB PAWG. The methodology is developed to evaluate ECAs and their respective governments on five weighted assessment dimensions:

1. Transparency: Financial and non-financial disclosures (weight 20%);
2. Mitigation I: Ambition of fossil fuel exclusion or restriction policies (40%);
3. Mitigation II: Climate impact of and emission reduction targets for all activities (20%);
4. Climate finance: Positive sustainable development contribution (10%); and
5. Engagement (10%).

For each dimension, between three and five key questions are formulated. The inquiry into these key questions serves as the basis for the assessment. For each key question, benchmarks are defined which, in turn, serve as the basis to allocate one out of four labels of Paris alignment similarly used by E3G and with the following colour coding (Table 3).

**Table 3: Colour coding of the four labels of Paris alignment**

'Unaligned'	'Some progress'	'Paris aligned'	'Transformational'
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Source: authors based on E3G Public Bank Climate Tracker

Depending on the performance of the assessed institution in each assessment dimensions and its related key questions against the benchmarks defined in line with the conceptual premises presented in section 3.3, the methodology assigns the labels of Paris alignment (see Annex for further details). The scoring is carried out by evidence-based expert judgement.

#### **Box 2: Use of weights - the rationale for a prioritization mechanism**

This methodology proposes to apply weights to the assessment dimensions. This provides the option to prioritize some assessment dimensions over others. Making use of this prioritization was deemed necessary since not all dimensions can be considered to have equal importance for the imperative of limiting global warming to 1.5°C. In light of the urgency to achieve overall mitigation of global emissions and the extent of current fossil fuel support by ECAs, the priority is given to the two mitigation dimensions ('ambition of fossil fuel exclusion or restriction policies' and 'climate impact of and emission reduction targets for all activities'). The selection of weights reflects a careful consideration of priorities and is based on the expertise of more than a dozen experts from civil society organizations.

## 4.2. Development process, key attributes and assessment boundary

Developing the Paris alignment methodology for ECAs took place in January-June 2021 and consisted of the following work steps:

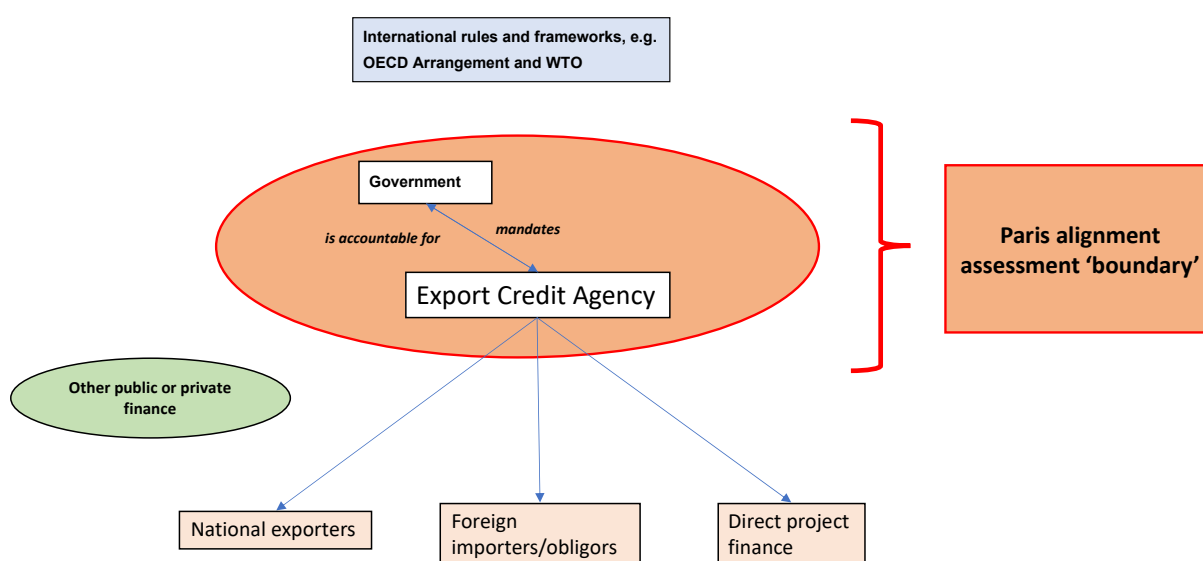
- Benchmarking of existing alignment methodologies
  - Background research regarding existing alignment methodologies for FIs and their applicability for ECAs
  - Webinar with relevant methodology developers and NGOs
- Development of the alignment methodology for ECAs
  - Development of clear alignment criteria and indicators for ECAs
  - Webinar with relevant researchers and NGOs
  - Fine-tuning of the methodology following the feedback from the webinar
- Case study and finalization of the methodology
  - Application of the draft methodology on a case study ECA (German Euler Hermes)
  - Finalization of the methodology following the results of the case study application
  - Final webinar open to public to present the methodology

**The core objective of the methodology is to provide a tool with which the Paris alignment of ECAs from major G20 economies can readily be evaluated.** The assessment outcomes can henceforth be referred to when working on short- and medium-term policy dialogues or the transformation of emission-intensive value chains in export finance on both international – e.g. the OECD Arrangement – and national levels. From the start, the methodology was aimed to be designed in order to fulfil the following attributes:

- *Systematic* – i.e., has a logical structure with unambiguous procedures and outcomes;
- *Robust* – i.e., can withstand criticism and be transparent about underlying assumptions;
- *Reproducible* – i.e., can be reproduced by any interested person where data is publicly available and lead to similar outcomes; *and*
- *Flexible* – i.e., can be applied to all major ECAs, taking into account their heterogeneous governance structure and varying use of financial instruments.

**While the attention of the assessment lies on the operational (i.e., the portfolio) and broader institutional practice (e.g., strategies, commitments and engagement) of the ECA itself, in many instances the ECA cannot be dissociated from the responsible government or government department.** Thus, within the broader context in which ECAs operate, Figure 2 schematically provides the assessment ‘boundary’ of the present methodology. Note that in the context of several countries, especially those with a strongly developed national export finance system, there may exist multiple organizations which support national exports on behalf of the government. For instance, in Germany, the national export finance system is comprised by three individual organizations, most notably Euler Hermes AG (for export guarantees and untied export credits), but also PriceWaterhouseCoopers (for investment covers) as well as AKA bank and the national development bank KfW-IPEX and its subsidiary DEG (for tied aid and direct lending) (BMW 2021).

Figure 2: Assessment 'boundary' of the Paris alignment methodology



Source: authors

### 4.3. Dimensions and logical structure of the assessment

The assessment dimensions of the methodology were chosen building on the approach by the PAWG whose six building blocks are also used as a basis for E3G's Public Bank Climate Tracker Matrix. The methodology omits two building blocks, namely adaptation and climate resilience and internal activities. The reason for this is that these building blocks, while important, cannot contribute in a similarly significant manner as the other building blocks to the imperative of limiting global warming to 1.5°C – the underlying core objective of the PA and thus the core normative underpinning of the methodology at hand. Moreover, these two dimensions appear significantly less relevant to ECA as export finance institutions. For example, according to the OECD (2020a), 99% of climate finance provided by ECAs is aimed at mitigation. Choosing fewer assessment dimensions may evoke the argument of under-complexity of the approach. However, the consideration of numerous dimensions and indicators can easily lead to a situation where their multitude distracts from the main purpose – and leaves it open to institutions to freely pick and choose on which indicator to progress first. To avoid such a situation, we choose the most relevant building blocks and applied the weights (see Box 2 above).

Table 4 describes the chosen assessment dimensions in more detail. As described above, for each assessment dimension, a set of key questions are formulated (see Annex for details). To attribute labels of 'Paris alignment' (i.e., the labels 'Unaligned', 'Some progress', 'Paris aligned' and 'Transformational'), benchmarks are formulated for each key question. The benchmarks are formulated as 'True/False' statements which makes the assessment outcome unambiguous across institutions.

Table 4: High-level description of chosen assessment dimensions

Assessment dimension	General description / rationale	Allocated weight
<b>Transparency: Financial and non-financial disclosures</b>	<p>This dimension includes the financial (e.g., value of total commitments outstanding per year and instrument) and non-financial (e.g., Scope 1-3 GHG emissions) disclosure of ECAs. As transparency is a crucial prerequisite for any Paris alignment methodology, the dimension is weighted with 20%.</p> <p>ECAs are likely to score low in this dimension, as these institutions have been found to be particularly lacking transparency in the past (Wenidoppler et al. 2017; Shishlov et al. 2020). In the spirit of the 'Paris alignment paradigm', disclosure must go beyond climate-related activities and comprise the entire portfolio (Larsen et al. 2018). Positively evaluating frontrunners in the field is expected to set an international benchmark of best transparency-related practices.</p>	<b>20%</b>
<b>Mitigation I: Ambition of fossil fuel exclusion or restriction policies</b>	<p>This dimension includes an evaluation of the ambition of communicated fossil fuel restriction or exclusion policies (e.g., emission-thresholds, timeline and scope of the policy). ECAs with no dedicated fossil fuel restrictions or exclusion policies will be evaluated with 'Unaligned' unless they are inactive in the fossil fuel value chain. Since immediate phasing out of new fossil fuel investments is required to achieve the net-zero objectives (IEA 2021) and ECAs are particularly notorious for their continued support to fossil fuels, this element is weighted highest with 40%.</p>	<b>40%</b>
<b>Mitigation II: Climate impact of and emission reduction targets for all activities</b>	<p>This dimension includes an evaluation of policies related to all activities of the ECA with potentially climate-adverse effects, where data on GHG emissions (Scope 1-3) is available. ECAs that do not disclose such information will be evaluated with 'Unaligned'.</p>	<b>20%</b>
<b>Climate finance: Positive sustainable development contribution</b>	<p>This dimension includes an assessment of the contribution of the ECA to a just climate transition, e.g., by providing quality climate finance. Rapidly ramping up and improving climate finance is crucial to achieve the objectives of the Paris Agreement and contribute to a green and just post-COVID recovery and ECAs have a role to play in this (e.g., Bhattacharya et al. 2020). Despite a lack of explicit mandates regarding climate change or sustainable development, ECAs have the potential to significantly exert government agency.</p> <p>The assessment focuses on active contributions of ECAs (i.e., through the provision of earmarked climate finance), sustainability-related incentive structures as well as the absence of significant negative impacts on sustainable development. The dimension is weighted with 10%.</p>	<b>10%</b>
<b>Engagement</b>	<p>This dimension includes an assessment of the outreach and "pro-activeness" of ECAs and their respective governments with regards to the following aspects:</p> <ul style="list-style-type: none"> <li>• Engagement with like-minded institutions to advance climate policies in the export finance system in international trade fora</li> <li>• Engagement with like-minded institutions to reform relevant competition regulation which continues to inhibit price discrimination based on environmental impact of export products in many jurisdictions</li> <li>• Engagement with national companies to transform export goods and services and spark innovation in low GHG export sectors</li> </ul> <p>This dimension is weighted with 10%.</p>	<b>10%</b>

Source: authors

#### 4.4. Key questions, benchmarks and 'labels' of Paris alignment

The multidimensional structure of the assessment leads to a methodology that uses 18 questions across all five dimensions, with one benchmark for each label of 'Paris alignment' and key question, i.e., a total of  $18 \times 4 = 72$  benchmarks. Selection of the assessment dimensions, the key questions and related benchmarks is informed, where possible, by peer-reviewed literature and the latest climate science as well as by information provided by insiders of the export finance system. Each benchmark consists of one or more 'True/False' conditions, with an indication if the condition is binding or optional. One example for this regarding assessment dimension 4 - Q1: The label 'Paris aligned' can be attributed if an ECA (or its government) assumes "institutional leadership and responsibility for revisions and additions of fossil fuel-related sector understandings" within the OECD Arrangement.

However, not all G20 ECAs that shall be assessed with this methodology are participants of the Arrangement. Thus, pro-active engagement for ambitious climate policies in the export finance system outside the OECD Arrangement can also be evaluated as ‘Paris aligned’. Whether a condition is seen as binding or not is indicated with the connector ‘AND’ / ‘OR’ (see Annex for further details).

**Rooting the ‘Paris alignment’ assessment in this granular and transparent assessment structure also provides the chance to continually update the assessment methodology**, e.g., in the case that one benchmark becomes obsolete or if evidence suggests the need to modify, delete or add key questions. The set of key questions by assessment dimension is provided in Table 5. **The full list of related benchmarks, formulated as answers to the key questions, is available in the Annex.**

**Table 5: Key questions by assessment dimension**

Assessment dimension	Assessment questions
<b>Transparency: Financial and non-financial disclosures</b>	<ul style="list-style-type: none"> <li>To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)</li> <li>To what extent can the share of climate finance over total portfolio be assessed? (Financial disclosure)</li> <li>To what extent can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)</li> <li>To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?</li> </ul>
<b>Mitigation I: Ambition of fossil fuel exclusion or restriction policies</b>	<ul style="list-style-type: none"> <li>Coal: How ambitious is the ECA regarding exclusions or restrictions for support of coal and the related value chain?<sup>13</sup></li> <li>Oil: How ambitious is the ECA regarding exclusions or restrictions for support of oil and the related value chain?</li> <li>Natural gas: How ambitious is the ECA regarding exclusions or restrictions for support of gas and the related value chain?</li> </ul>
<b>Mitigation II: Climate impact of and emission reduction targets for all activities</b>	<ul style="list-style-type: none"> <li>Can a declining trend in GHG intensity of the total portfolio be observed? (tCO<sub>2</sub>e/bn, Scope 1-3 emissions)</li> <li>How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)</li> <li>To what extent do all emission-relevant sectors have targeted GHG reduction targets and to what degree are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?<sup>14</sup></li> </ul>
<b>Climate finance: Positive sustainable development contribution</b>	<ul style="list-style-type: none"> <li>What is the reported share of climate finance<sup>15</sup> over total portfolio?</li> <li>How can the quality/appropriateness of climate finance earmarks be assessed?</li> <li>What is the share of clean energy financing over total energy-related financing? (average of the last three years of available data, where available)</li> <li>To what extent does the pricing structure take into account climate impacts of activities?</li> <li>To what extent does the institution ensure positive sustainable development impacts of its activities?</li> </ul>
<b>Engagement</b>	<ul style="list-style-type: none"> <li>To what extent does the institution itself or its government actively engage in relevant trade fora (e.g., OECD Arrangement, the Berne Union or the World Economic Forum) to liaise with like-minded organisations for ambitious climate policies in the export finance system?</li> <li>To what extent does the institution itself or its government actively engage in reform processes of competition laws (national/supranational) that hamper export product financing discrimination on the grounds of climate or sustainability impact?</li> <li>To what extent does the institution or its government actively engage with national companies to incentivize low GHG exports with no risk of carbon lock-in?</li> </ul>

Source: authors

<sup>13</sup> The entire value chain (fossil fuels) includes exploration, development, extraction, transport, processing, storage, distribution, consumption, petrochemistry, retrofits and commercial promotion in coal, oil and gas sectors (all upstream and downstream activities). It also includes all exports of capital goods to engage in any of the above-mentioned areas of the activity (for instance, the export of parts of a coal power plant, gas turbines, pipelines or drilling equipment).

<sup>14</sup> Based on the precautionary principle and in light of the stronger uncertainties implied by all other illustrative pathways towards 1.5°C warming above pre-industrial levels, we consider the IPCC P1 pathway as a benchmark for Paris alignment. However, these pathways do not establish sector-specific GHG intensity benchmarks by asset classes, which partly exist only in scenarios from the IEA. The IEA (2021) Net Zero 2050 Energy Outlook can also guide the energy-related assessment.

<sup>15</sup> All financial transactions labelled as ‘climate finance’ by the institution. This can include an in-house definition.



#### 4.5. Application, peer review and updating of the methodology

The application of the assessment methodology leads to an assessment outcome as illustrated in Table 6 below. The application of the methodology involves several steps, including the following:

- **Step 1 - Desk research:** Compiling key data per assessment dimension. Sources include annual reports of ECAs, public communications and announcements or relevant third-party material, such as the fossil fuel financing database by Oil Change International (OCI).
- **Step 2 – Outreach to ECA:** The assessed institution is contacted, the purpose and structure of the assessment is presented and the desk research findings are corroborated with the ECA. Key data gaps are raised and potentially addressed.
- **Step 3 – Assessment:** Based on data gathered in steps 1 & 2, the assessment is carried out in an Excel template and labels of 'Paris alignment' (incl. related sub-scores) are assigned to each key question. Preliminary results are available.
- **Step 4 – Peer-review of assessment:** Preliminary results of the assessment are circulated within a selected circle of experts, including civil society organizations in a given country and/or willing members of government/the ECA. This may help to identify potentially omitted data sources or activities.
- **Step 5 – Publication of results:** This includes a dedicated policy brief per country/ECA and highlights the key issues that emerge following the assessment as well as recommendations to address the identified gaps in Paris alignment. Over the medium-term, the results can be integrated into an online transparency platform ('ECA Climate Tracker').

**Table 6: Structure of the assessment matrix, including illustrative assessment outcomes**

Dimensions	Weight	Description	Score (illustrative)
1. Transparency	0.2	Financial and non-financial disclosures	1
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	1
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	2
4. Climate finance	0.1	Positive sustainable development contribution	1
5. Engagement	0.1	Engagement	1
<b>Assessment outcome:</b>		<b>Some progress</b>	<b>1.2 (weighted)</b>

#### Assessment outcomes

#### Corresponding score range

<b>Unaligned</b>	0.00 - 0.50
<b>Some progress</b>	0.51 - 1.50
<b>Paris aligned</b>	1.51 - 2.50
<b>Transformational</b>	2.51 - 3.00

Source: authors

**Peer-review process was an important part of the quality assurance of the methodology, including its logical structure, content and applicability.** The methodology development process included two non-public (Chatham house rules) webinars with relevant stakeholders in the field of Paris

alignment of FIs and climate action in ECAs. The first webinar focused on the identification of relevant elements among existing approaches to Paris alignment in the context of ECAs (benchmarking). The second webinar gathered feedback on the first draft methodology. Participants of the webinars included representatives from more than ten civil society organizations. Moreover, peer-reviewing is conceived to also be an integral part of validating the assessment outcome for each country and can emphasize the participatory and transparent approach of the assessment methodology at hand.

**Lastly, the methodology is designed in a way that key questions and related benchmarks can be updated without obfuscating past results.** This is ensured by transparently and exhaustively flagging changes of benchmarks or key questions with the release of any publication of results. Indeed, based on continuous stakeholder feedback, recent developments in science and policy making or the advent any other unforeseen events, it is likely that the update frequency of the methodology will be on a yearly basis.



## 5. Conclusion: Towards Paris alignment of export finance

**This report has shown that the export finance system continues to represent a ‘blind spot’ in national and international climate policy.** Major G20 governments continue to strategically support national companies through their ECAs in riskier businesses abroad, including in GHG emissions-intensive sectors contributing to carbon lock-in, despite their commitments under the Article 2.1c of the Paris Agreement. Several governments – notably the US and some of the EU countries – have made climate-related ECA announcements in the run-up to COP26 in Glasgow. This shows that there is political momentum for adopting more ambitious efforts towards structurally transforming global value chains for rapid global decarbonization. It will now be crucial to translate these announcements into practice, assess the progress towards Paris alignment of ECAs and identify the remaining gaps.

**In this light, we developed a first dedicated Paris alignment methodology for ECAs.** The development of the methodology was based on benchmarking of existing Paris alignment approaches for financial institutions, which allowed to select and tailor the most relevant components of these approaches to the specificities of ECAs. The methodology allows the assessment and comparison of individual ECAs and their respective governments across the following five weighted dimensions:

1. **Transparency:** Financial and non-financial disclosures (20% weight);
2. **Mitigation I:** Ambition of fossil fuel exclusion or restriction policies (40%);
3. **Mitigation II:** Climate impact of and emission reduction targets for all activities (20%);
4. **Climate finance:** Positive sustainable development contribution (10%); and
5. **Engagement** (10%).

Depending on how well a national export finance system scores across these dimensions, a degree of Paris alignment is attributed among four possible labels (“Unaligned”, “Some Progress”, “Paris aligned” or “Transformational”). The methodology was ‘road-tested’ on the German ECA Euler Hermes<sup>16</sup>, which was rated as “unaligned”. As a next step, the methodology will be applied to a sub-set of selected G20 ECAs by the end of 2021 with a view of assessing all G20 countries in 2022.

**The results of this exercise will feed into policy discussions on reforming the export finance system – both on the international level, e.g., through the OECD Arrangement on officially-supported export credits, and on the level of national ECA policies.** Transforming export finance will necessarily face the need to resolve seemingly *unresolvable* conflicting objectives, e.g., between national competitiveness or employment and the chance for safely achieving of the objectives of the Paris Agreement. This will be the case of rapid fossil fuel value chain phase out, which in many cases may face short-term trade-offs. **By highlighting best practices and identifying Paris alignment gaps in ECAs the case studies will underscore the imperative and possibility to lead on climate action and point to the areas of much needed improvement respectively.**

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<sup>16</sup> Case study available here: <https://www.perspectives.cc/publications/>

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## 7. Annex: Details of the Paris alignment methodology for Export Credit Agencies

### 7.1. Dimension 1. Transparency: Financial and non-financial disclosures

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
<b>Q1</b>	To what extent can the <b>GHG intensity</b> of all <i>activities supported by the ECA</i> be assessed based on publicly available data? ( <i>Non-financial disclosure</i> )	Internal sustainability and GHG reporting	- No possibility whatsoever, i.e., the ECA does not engage in own GHG accounting at project or portfolio level	- Limited grounds on which to assess GHG intensity, i.e., disclosure exists only for selected subset of activities or only scope 1 and 2 AND - Commitment to align GHG reporting with international standards	- GHG emissions (scope 1 and 2, and 3 where appropriate) are reported according to international standards (e.g., GHG Protocol, PCAF)	- GHG emissions (Scope 1 and 2, and 3 where appropriate) are reported according to international standards (e.g., GHG Protocol, PCAF) AND - reporting includes information on baselines and lifetime GHG emissions of assets
<b>Q2</b>	To what extent can the share of <b>climate finance</b> over <i>total portfolio</i> be assessed? ( <i>Financial disclosure</i> )	Public communications, ECAs	- No possibility whatsoever, i.e., ECA does not disclose the necessary financial information OR - Only discloses the necessary financial information for a subset of portfolio	- Limited possibility to assess <i>climate finance</i> , i.e., some project level information and definitions available OR - Commitment to improve climate-related financial disclosure <i>over the medium term</i>	- Possibility of comprehensive assessment, i.e., climate related and non-climate disclosure exists for <i>total portfolio</i> AND - Clear in-house definition of <i>climate finance</i> or adherence to international standard	- Possibility of comprehensive assessment AND - Possibility of comprehensive assessment of credible 'green' or 'sustainable' finance over total portfolio (e.g., according to the EU taxonomy)
<b>Q3</b>	To what extent can the share of <b>fossil fuel finance</b> over <i>total portfolio</i> be assessed? ( <i>Financial disclosure</i> )	Public communications, ECAs	- No possibility whatsoever, i.e., ECA does not disclose the necessary financial information OR - Only discloses the necessary financial information for a subset of portfolio	- Limited possibility to assess <i>fossil fuel finance</i> , i.e., some project level information and necessary definitions available OR - Commitment to improve financial disclosure <i>over the medium term</i>	- Comprehensive possibility to assess fossil fuel finance, i.e., project level information and necessary definitions available AND - Clear in-house definition of <i>fossil fuel finance</i> or adherence to international standard	- Possibility of comprehensive assessment AND - Transparent communication of fossil fuel finance including justifications of 'exceptional fossil fuel financing', clear definitions and plans for phase-out
<b>Q4</b>	To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the <b>Task Force on Climate-related Disclosure (TCFD)</b> ?	Public communications, ECAs	- No adherence or commitment to adhere whatsoever	- Partially covers the disclosure dimensions recommended by the TCFD OR - Commitment of adherence over the medium term	- Regular disclosure fully in line with the TCFD for at least one FY	- Disclosure fully in line with the TCFD for at least one FY AND - Reporting of activities with taxonomies on sustainable finance (e.g., EU taxonomy of Sustainable Finance)



## 7.2.Dimension 2. Mitigation I: Ambition of fossil fuel exclusion or restriction policies

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	<b>Coal:</b> How ambitious is the ECA regarding exclusions or restrictions for support of coal and the related <i>value chain</i> ?	Public communications ECAs	<ul style="list-style-type: none"> <li>- Continued support of coal and related <i>value chain</i></li> <li>AND</li> <li>- Absence of policies beyond the <i>OECD CFSU</i></li> <li>OR</li> <li>- Evidence for substantive deviation from stated policies</li> <li>OR</li> <li>- Generically stated policies without clear timeline, commitment or scope of action</li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect for projects restricting support of coal and related <i>value chain</i> beyond the <i>OECD CFSU</i></li> <li>AND</li> <li>- Commitment to exclude coal and related <i>value chain</i> over the <i>short term</i> (i.e. <i>within two years</i>)</li> <li>AND</li> <li>- Evidence for limited deviation from stated policies</li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding coal and related <i>value chain</i></li> <li>AND</li> <li>- Evidence for no deviation from stated policies</li> <li>OR</li> <li>- Targeted policies in place to exclude coal and related <i>value chain</i> over the <i>short term</i></li> <li>OR</li> <li>- Demonstration of non-engagement in entire fossil fuel <i>value chain</i></li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding coal and related <i>value chain</i></li> <li>AND</li> <li>- Complementary policies or programmes of early retirement/replacement of assets</li> <li>AND</li> <li>- Evidence for overachievement of stated policies</li> <li>OR</li> <li>- Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ("contribution to a just transition")</li> </ul>
Q2	<b>Oil:</b> How ambitious is the ECA regarding exclusions or restrictions for support of oil and the related <i>value chain</i> ?	Public communications ECAs	<ul style="list-style-type: none"> <li>- Continued support of oil and related <i>value chain</i></li> <li>OR</li> <li>- Evidence for substantive deviation from stated policies</li> <li>OR</li> <li>- Generically stated policies without clear timeline, commitment or scope of action</li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect for projects restricting support of oil and related <i>value chain</i></li> <li>AND</li> <li>- Commitment to exclude oil and related <i>value chain</i> over the <i>short term</i></li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding oil and related <i>value chain</i></li> <li>AND</li> <li>- Evidence for no deviation from stated policies</li> <li>OR</li> <li>- Targeted policies in place to exclude oil and related <i>value chain</i> over the <i>short term</i></li> <li>OR</li> <li>- Demonstration of non-engagement in entire oil <i>value chain</i></li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding oil and related <i>value chain</i></li> <li>AND</li> <li>- Complementary policies or programmes of early retirement/replacement of assets</li> <li>AND</li> <li>- Evidence for overachievement of stated policies</li> <li>OR</li> <li>- Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ("contribution to a just transition")</li> </ul>
Q3	<b>Natural gas:</b> How ambitious is the ECA regarding exclusions or restrictions for support of gas and related <i>value chain</i> ?	Public communications ECAs	<ul style="list-style-type: none"> <li>- Continued support of natural gas and related <i>value chain</i></li> <li>OR</li> <li>- Evidence for substantive deviation from stated policies</li> <li>OR</li> <li>- Generically stated policies without clear timeline, commitment or scope of action</li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect for projects restricting support of natural gas and related <i>value chain</i></li> <li>AND</li> <li>- Commitment to exclude natural gas and related <i>value chain</i> over the <i>short term</i></li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding natural gas and related <i>value chain</i></li> <li>AND</li> <li>- Evidence for no deviation from stated policies</li> <li>OR</li> <li>- Targeted policies in place to exclude natural gas and related <i>value chain</i> over the</li> </ul>	<ul style="list-style-type: none"> <li>- Policies in effect excluding natural gas and related <i>value chain</i></li> <li>AND</li> <li>- Evidence for overachievement of stated policies</li> <li>AND</li> <li>- Complementary policies or programmes of early retirement/replacement of assets (includes targeted re-use of</li> </ul>

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
					<i>short term</i> OR - Demonstration of non-engagement in entire natural gas <i>value chain</i>	infrastructure for green hydrogen production or transport) OR - Complementary policies or programmes to compensate job-losses or other socially adverse transition risks caused by exclusion policies in home country or abroad ("contribution to a just transition")

### 7.3.Dimension 3. Mitigation II: Climate impact of and emission reduction targets for all activities

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
<b>Q1</b>	Can a <b>declining trend in GHG intensity</b> of the <i>total portfolio</i> be observed? (tCO <sub>2</sub> e/bn, scope 1-3 emissions)	ECA internal climate impact analyses (only example: bpifrance)	- GHG intensity of total portfolio unavailable OR - Increasing or constant trend over the past three years	- GHG intensity available in parts of the portfolio OR - Slightly decreasing GHG intensity over the past three years (<3% p.a. compared to first year of comprehensive GHG accounting)	- GHG intensity of total portfolio available AND - Significantly decreasing trend over the past three years (>3% p.a. compared to first year of comprehensive GHG accounting)	- GHG intensity of total portfolio available AND - Significant drop (>20%) in GHG intensity of the total portfolio over the last three years AND - Adherence to international standards seeking to establish comparability among institutions (e.g. GHG Protocol, PCAF)
<b>Q2</b>	How significant is the <b>fossil fuel financing</b> relative to <i>total energy-related portfolio</i> ? (average of the last three years of available data, where available)	OCI 2020 database; Fossil fuel exclusion policies	- No data available OR - Value higher than 30%	- Value continually decreasing and between <30% and >0% AND - Commitment to reduce this share further	- Value zero OR - Targeted policies in place to reach zero over the short term (coal, oil and gas)	- Value zero AND - Evidence of intentional phase out from fossil fuels (otherwise mark as PA)
<b>Q3</b>	To what extent do all emission-relevant sectors have targeted GHG reduction targets and to what extent are GHG reduction targets <b>in line with</b> benchmarks of <b>acceptable 1.5°C pathways</b> ?	Internal sustainability and GHG reporting, public communications ECAs and independent observers	- No targets in <i>emission-relevant sectors</i> OR - Not in line with <i>acceptable 1.5°C pathways</i>	- Existence of targets in all <i>emission-relevant sectors</i> AND - Commitment to increase ambition <i>over the medium term</i> (i.e. within less than 5 years) to be in line with <i>acceptable 1.5°C pathways</i> OR - Commitment to offer favourable financing conditions for clients with SBTs	- Existence of targets in all <i>emission-relevant sectors</i> AND - Submitted science-based targets (SBTi) (or announcement to submit <i>over the short term</i> ) to reduce portfolio emissions covering Scopes 1, 2 and 3.	- Existence of targets in all <i>emission-relevant sectors</i> AND - Accepted science-based target (SBTi) to reduce portfolio emissions (or better), covering Scopes 1, 2 and 3. OR - Overachieving sectoral benchmarks (GHG intensities per output of product, e.g. as defined by the SBTi Sectoral Decarbonization Approach, SDA)

#### 7.4.Dimension 4. Climate finance: Positive sustainable development contribution

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
Q1	What is the reported share of <b>climate finance</b> over <i>total portfolio</i> ?	Public communications ECAs; Own calculations	-No data available OR - Share < 5%	- Share between 5% and 20% AND - Continuous upward trend of share over the past three FYs for which data is available	- Share between 20% and 50% AND - Continuous upward trend of share over the past three FYs for which data is available	- Share > 50% AND - Continuous upward trend of share over the past three FYs for which data is available
Q2	How can the <b>quality/appropriateness of climate finance earmarks</b> be assessed?	Public communications ECAs	-No climate finance reporting OR - No robust/comparable earmarking of <i>climate finance</i>	- In-house system of climate finance earmarking AND - Commitment to follow common climate finance earmarks, e.g., OECD Rio Markers or MDB Joint Approach	- Adoption of common climate finance earmarks AND - Exclusion of retrofits of existing fossil fuel power plants due to risk of carbon lock-in from climate finance accounting	- Adoption of common climate finance earmarks AND - Exclusion of retrofits of existing fossil fuel power plants due to risk of carbon lock-in from climate finance accounting AND - Follows the recommendations of the independent expert group to transform climate finance <sup>3</sup> OR Development of tailor-made methods to count climate finance in the export finance system
Q3	What is the <b>share of renewable energy financing</b> over total energy-related financing? (average of the last three years, where available)	OCI 2020 database	-No data available OR - < 70% AND - No clear trend in support of renewable energy financing	- > 70%, as of the last FY for which data is available AND - Continuous upward trend of share over the past three FYs for which data is available AND - Fossil fuel finance does not increase in absolute terms over the same period of time	- 100%, as of the last FY for which data is available	- 100%, as of the last FY for which data is available AND - Evidence that institution has successfully phased out fossil fuel energy financing in its portfolio over the past years
Q4	To what extent does the <b>pricing structure take into account climate impacts</b> of activities?	Public communications ECAs and independent observers	- No incentive structure for climate-friendly activities	- Announcement for the implementation of a <i>climate reward</i> based on the climate impact of activities	- Implementation of an effective <i>climate reward</i> based on the climate impact of activities	- Implementation of an effective <i>climate reward</i> based on the climate impact of activities AND - Implementation of a <i>climate reward</i> based on the compliance or non-compliance with EU Taxonomy on Sustainable Finance
Q5	In how far does the <b>institution ensure positive</b>	Public communications ECAs	- Predominantly negative contribution ( <i>lack of guidelines to ensure positive</i>	- Announcement of aligning internal strategies, mandate and implementation of	- Evidence for strong synergies with national development agencies	- Stakeholder perception of ECA being an international leader ( <i>good press analysis</i> )

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
	<b>sustainable development impacts of its activities?</b>		<i>sustainable development contributions)</i>	activities with sustainable development goals and safeguards against negative impacts	OR - Mandate that includes contributions to sustainable development goals and safeguards against negative impacts	AND - Strong synergies with national development agencies AND - Mandate that includes contributions to sustainable development goals and safeguards against negative impacts

## 7.5.Dimension 5. Engagement

	Key question	Key data sources	'Unaligned'	'Some Progress'	'Paris aligned'	'Transformational'
<b>Q1</b>	To what extent does the institution itself or its government actively <b>engage in relevant trade fora</b> (e.g. OECD Arrangement, the Berne Union or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	Public communications ECAs and independent observers	- No active engagement OR - Evidence of exerting significant peer pressure against climate-related policy reform	- Some engagement AND - No evidence of exerting peer pressure against climate-related policy reform	- Assuming institutional leadership and responsibility for revisions and additions of fossil fuel-related sector understandings (OECD Arrangement " <i>Participants</i> " only) OR - Demonstration of a "policy push" outside the OECD Arrangement (both " <i>Participants</i> " and "non- <i>Participants</i> ")	- Demonstrated breakthroughs in international climate diplomacy relevant for the global export finance system, e.g. negotiations with China
<b>Q2</b>	To what extent does the institution itself or its government actively <b>engage in reform processes of competition laws</b> (national/ supranational) that hamper export product financing discrimination on the grounds of climate or sustainability impact?	Public communications ECAs and independent observers	- No active engagement AND - Evidence of exerting significant peer pressure against policy reform	- Some engagement AND - No evidence of exerting peer pressure against policy reform	- Assuming institutional leadership and responsibility for national/supranational reform of competition law in context of the climate urgency	- Demonstrated breakthroughs in international climate diplomacy relevant for the global export finance system competition regulations (e.g. OECD Arrangement, EU competition law, peer group agreements, etc.)
<b>Q3</b>	To what extent does the institution or its government actively <b>engage with national companies</b> to incentivize low GHG exports with no risk of carbon lock-in?	Public communications ECAs; Historic changes of portfolio composition	- No active engagement OR - ECA clearly "reactive", rather than "proactive" in enabling business transactions abroad	- Announcement to engage with main national export sectors	- Clear proactive role of ECA and its government in enabling innovation and marketization of goods and services in low GHG sectors in exports markets OR - Dedicated incentive schemes	- Leader in economic policies transforming national export sectors (e.g. from capital goods for fossil fuel <i>value chain</i> to renewable energy technologies) (historic evidence)



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