

# Financial Institutions and Net Zero

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22 September 2022



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# Net Zero – what and why?

The **IPCC** defines Net Zero as that point when “anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period”

**Paris Agreement (Article 4.1)** Parties shall aim to reach global peaking of GHG emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, *so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of GHGs in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.*

**IPCC AR6 WGIII** report confirms: Global net zero CO<sub>2</sub> emissions are reached in the early 2050s in modelled pathways that limit warming to 1.5°C (>50%) with no or limited overshoot and around the early 2070s in modelled pathways that limit warming to 2°C (>67%).

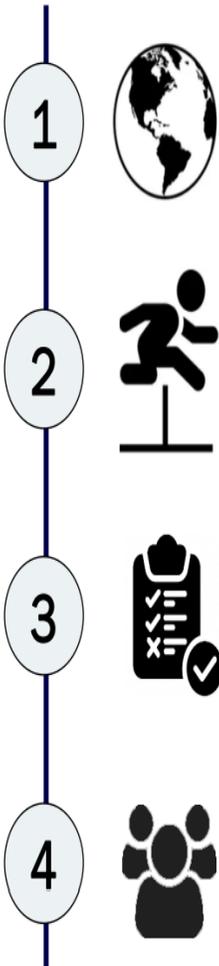
**GFANZ** also uses the definition of net zero of “a state when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals.”

**SBTi: corporate** Net Zero targets aligned with meeting societal climate goals means (1) achieving a scale of value chain emissions reductions consistent with the depth of abatement at the point of reaching global or sector net zero in 1.5°C pathways and (2) neutralizing the impact of any residual emissions by permanently removing an equivalent volume of CO<sub>2</sub>.

# EBRD and alignment with the Paris Agreement



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## EBRD is committed to Paris alignment of all its activities by end 2022

In line with the Paris Agreement, the concept of alignment refers to making EBRD finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Therefore finance is compatible with the climate change mitigation and adaptation objectives of the Paris Agreement.

## Paris alignment of financial intermediaries: a challenge and opportunity

Financial intermediaries are crucial to deliver on Paris. However the arms-length nature of the intermediated financing, combined with limited capacity of partner financial institutions to manage climate risks and exploit opportunities presents a challenge to align finance. This is set against a fragmented external landscape of initiatives and a lack of regulation in most markets.

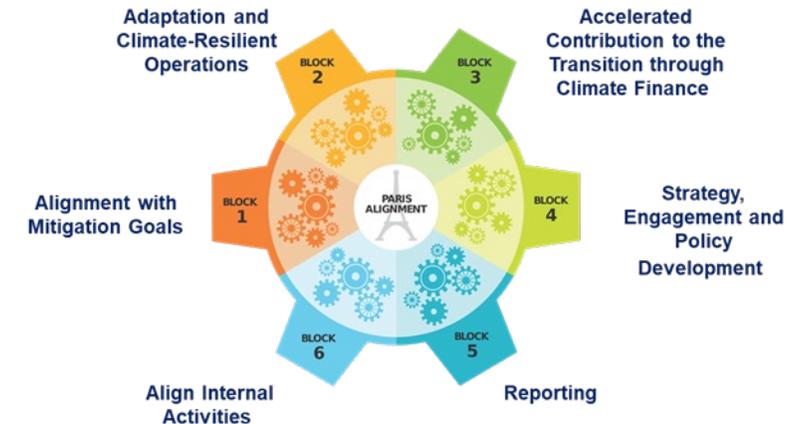
## EBRD alignment methodology for intermediated finance: “greening of relationships” approach

Focused on the transformation of partner financial intermediaries with a dual focus on:

- “who” by developing credible transition plans in line with leading market and regulatory practice.
- “what” by ensuring sub-transactions are consistent with Paris mitigation and adaptation goals

## EBRD will work with MDBs and others to green the financial system

To complement Paris alignment of its projects EBRD will undertake policy dialogue with regulators, as well as engagement with the investor community and civil society to encourage the adoption of appropriate standards. EBRD will work with MDBs and others to influencing a climate aware regulatory environment.



# Financial institutions need more clarity on the role markets can play in meeting net zero commitments



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The EU taxonomy does not make any link to carbon market activities, and use of offsets is not accounted for



Carbon offsets are only recognised in scope 3 emissions reduction strategies that go beyond science based target



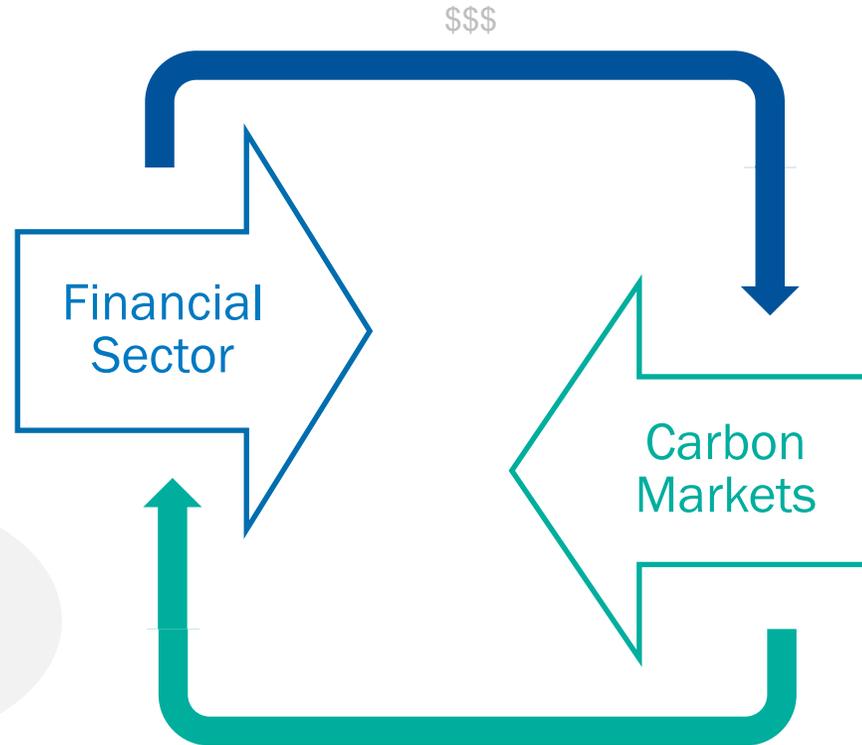
Paris Aligned Investment Initiative

TCFD

No guidance on the use of offsets, recognises markets only as a "climate-related" opportunity



Current PCAF & PACTA methodologies do not account for, nor make any linkage to, carbon market activities



Further alignment is needed, standards for climate finance and carbon markets need to be developed in closer consideration of each other



# Paris alignment methodology concept for intermediated finance



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