CLIMATE TRANSITION FINANCE

- moving carbon-intensive industries on to a sustainable path

Berner Union – Financing Gaps for Trade and Development

International Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

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Climate Business

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SUSTAINABLE FINANCE - THE FUTURE OF FINANCE

World Bank issues its first Green Bond

Paris Agreement

195 countries commit to net-zero carbon by 2050

The Tragedy of Horizon –
“***Once climate change becomes a defining issue for financial stability, it may already be too late***”
Mark Carney

TCFD and **NGFS** launched

2008

2010

2015

2017

2020

IFC issues its first Green Bond

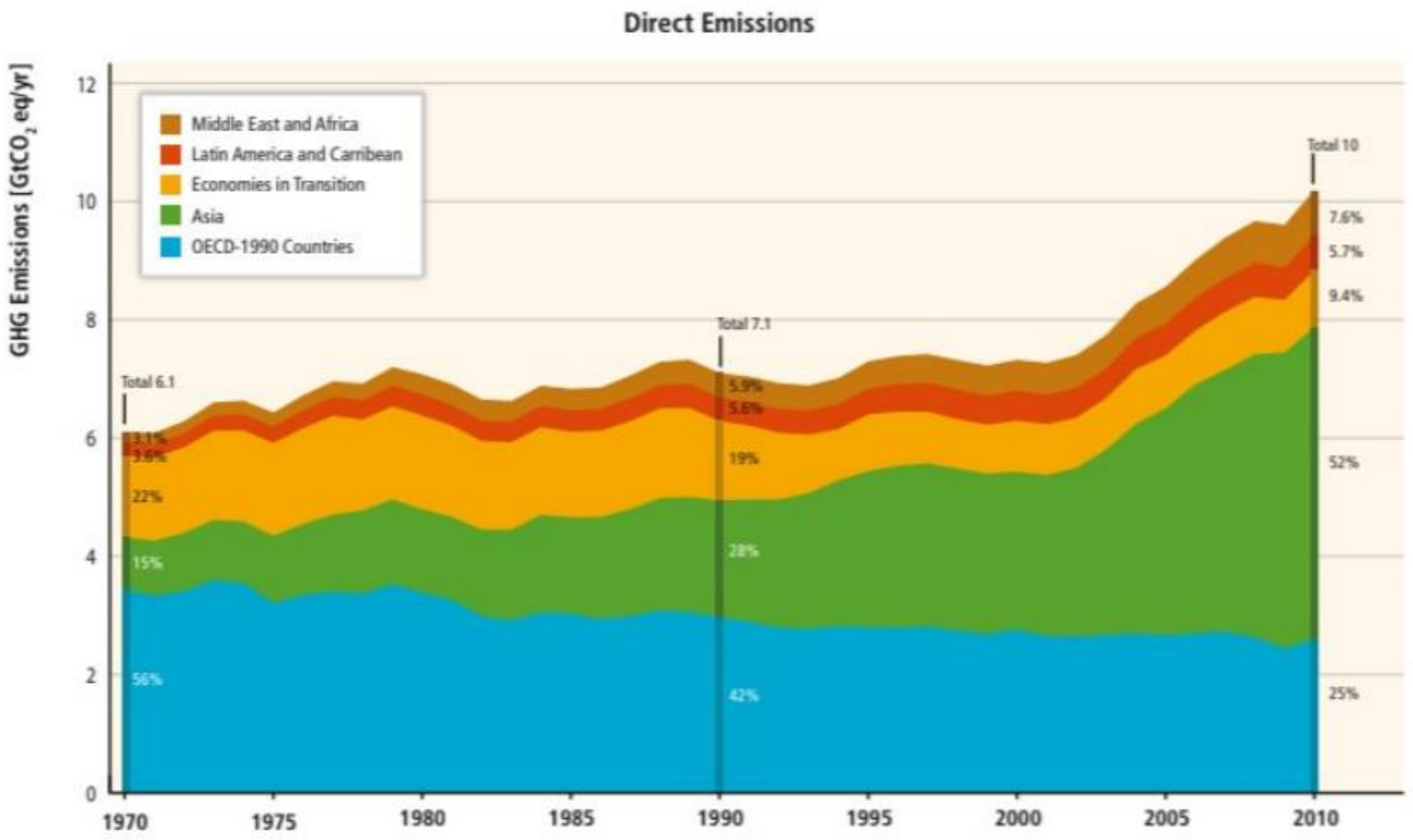
Sustainable Finance Action
e.g.G20 (2015)
China and EU (2016)
South Africa (2017)
Canada (2019)

First performance-linked loan

Transition Finance Principles and Handbook published

WHY IS CLIMATE TRANSITION FINANCE IMPORTANT?

Limiting the global warming to 2° C will imply reducing GHG emissions by 80-95% of the 1990 level by 2050.



- Industry is one of the leading sources of increases in GHG emissions (accounting for about 28% in 2014) and is projected to represent the biggest share of GHG emissions by 2030.
- The 2° C target cannot be reached without decarbonizing industrial activities.
- Iron and steel, cement, chemicals and petrochemicals, aluminum, pulp and paper are among the high-emitting industries.
- The growth of industrial GHG emissions is expected to come from non-OECD countries.

WHAT IS CLIMATE TRANSITION FINANCE? DIFFERENT ASPECTS

Climate Bonds INITIATIVE

1. **In line with 1.5 degree trajectory**
   All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.
2. **Established by science**
   All goals and pathways must be led by scientific experts and be harmonised across countries.
3. **Offsets don't count**
   Credible transition goals and pathways don't count offsets, but should count upstream scope 3 emissions.
4. **Technological viability trumps economic competitiveness**
   Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.
5. **Action not pledges**
   A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.

Transition Pathway Initiative

Aimed at investors, TPI assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change.

SCIENCE BASED TARGETS

SBTi provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals.

ACT ASSESSING LOW CARBON TRANSITION®

ACT develops sector-specific methodologies to assess company alignment with low-carbon transition and produce a rating reflecting the results.

Climate Action 100+ Global Investors Driving Business Transition

Net-Zero Company Benchmark

1. **Ambition**: Whether the company has set an ambition to achieve net-zero GHG emissions by 2050 (or sooner);
2. **Targets and goals**: If clear short-, medium- and long-term GHG reduction targets or goals covering all material scope 1, 2 and 3 GHG emissions are in place and aligned to a 1.5°C global warming trajectory;
3. **Decarbonisation strategy**: Whether the company has a robust decarbonisation strategy to deliver these GHG reduction targets, goals and ambitions;
4. **Capital alignment**: Whether an assessment has been carried out of the extent to which a company's capital investment in carbon-intensive assets or business lines are consistent with the goals of the Paris Agreement;
5. **Climate policy support**: If a clear commitment and set of disclosures, clarifying intent to support climate policy, has been developed by the company, together with a demonstration of how direct and indirect lobbying is consistent with this intent;
6. **Governance**: Whether the company has effective board oversight of, and remuneration linked to, delivery of GHG targets and goals (as described in point 2 above);
7. **Just transition**: Whether the company has disclosed information on how a 'just transition' can be achieved – taking account of the impact on employees, communities and other stakeholders – and has been incorporated into the company's transition planning;
8. **Reporting**: Whether the company's overall climate risk reporting is consistent with the recommendations of the TCFD.

Climate Transition Finance Handbook December 2020

WHAT IS CLIMATE TRANSITION FINANCE? KEY ELEMENTS

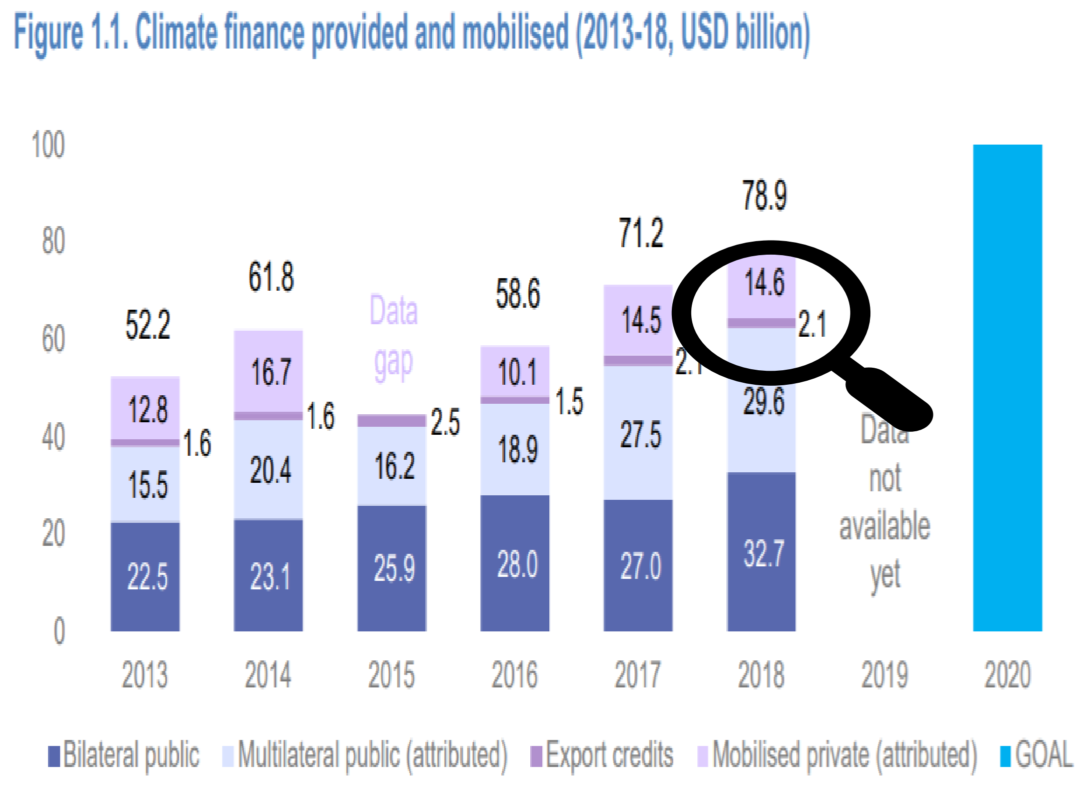
SUSTAINABILITY STRATEGY AND TRANSITION PLAN WITH CLEAR TRANSITIONAL BENEFITS BEYOND BUSINESS AS USUAL

INTENTIONAL, MATERIAL TO BUSINESS, SCIENCE-BASED AND MEASUREABLE

REVIEWED BY INDEPENDENT PARTY

ANNUAL REPORT ON PROGRESS TOWARDS TRANSITION OBJECTIVES

THE GREEN SWAN IN TRADE FINANCE



A climate event that is outside the normal range of expected events.

Should export credit be Paris-aligned?
How can export credits help deliver on the commitments of the Paris Agreement?

How will climate change and sustainable finance change the way members co-finance/invest and re-insure?

How can export credit encourage and participate in new sustainable performance-linked financial structures?

Will the green swan change members' risk analysis and credit risk management?

Source: OECD (2020): Climate Finance provided and mobilized by developed countries 2013-2018