

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



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August 2022

Current Trends

Net Zero:
a New Pathway for Banks

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Background for Net Zero Target

Collaborative efforts are being called for to reach net zero by 2050. Reaching net zero emissions means balancing the greenhouse gases we emit into the atmosphere. Under the Paris Agreement in 2015, 197 countries pledged to keep temperature rises “well below” 1.5°C to avoid severe consequences of climate change. Keeping the planet’s atmosphere below the Paris Agreement’s target temperature means a 50% reduction in global carbon emissions each decade. This requires serious commitments of all countries, cities and companies to reduce or eliminate their production of CO₂ to limit the global warming consequences. Huge investments will be needed to achieve the net zero goals in each and every sector of the economies, a key intersection point for the sectors is the banking sector. Some banks have initiated some steps on the new path for net zero: Net zero banking alliance brings together banks for collaborating on that.

The implementer: Net- Zero Banking Alliance

Net-Zero Banking Alliance (NZBA) brings together a global group of banks which are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. It was launched as an initiative under the broader Glasgow Financial Alliance for Net Zero (“GFANZ”), which is a sector-wide forum created in advance of the 2021 United Nations Climate Change Conference (referred to as COP26). The Alliance was launched by 43 founding members on 21 April 2021 growing to represent about 40% of global banking assets. The Alliance is convened by the UN Environment Programme Finance Initiative, and is accredited by the Race to Zero. It is note worth mentioning that NZBA is led by a two-tier “Steering Group” composed of twelve member banks and a UNEP-FI representative¹.

The Alliance recognizes the vital role of banks in supporting the global transition of the real economy to net-zero emissions, it reinforces, accelerates and supports the implementation of decarbonisation strategies. Combining near-term action with accountability, this ambitious commitment sees signatory banks setting intermediate targets for 2030 using robust, science-based guidelines.

Banks Joining the Alliance (signatory Banks)

The status of joining the Alliance to the date:

- 115 banks
- 41 countries
- US \$70 trn Total assets
- 38% of global banking assets²

The first bank to join the alliance from the MENA is Commercial International Bank (CIB) in Egypt followed by First Abu Dhabi Bank in the UAE, as the only two signatories of NZBA in the region. CIB is the first bank to join the UNEP FI in 2016 and was one of the founding signatories of the Principles for Responsible Banking along with the Arab African International Bank (AAIB), Banque Misr, and Alex Bank – Intesa San Paolo. To this day, Egypt holds the largest PRB Signatories of 7 banks including as well Banque Du Caire, National Bank of Egypt and QNB Al-Ahli.

On its website, UN environment programme Finance Initiative announced that it is welcoming the banks who have joined from the UN Principles for Responsible Banking and Collective Commitment to Climate Action, and from the Prince of Wales' Sustainable Markets Initiative Financial Services Taskforce, as well as all other banks who have shown leadership by joining the Alliance. In fact, UNEP encourages banks worldwide to join the Alliance.

On regional progress on net zero, there are several developments, KSA pledged for NZ by 2060, Qatar to reduce GHG emissions by 25% by 2050, and Egypt to also reduce emissions by 2030 according to its updated NDC.

Signatory Requirements: Steps to Follow

Before joining the NZBA, a prospective bank member signs a commitment statement and ought to commit to the hereunder:

- Transition all operational and attributable (Scope 1, 2, and 3) GHG emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.
- Prioritize efforts within their portfolios toward the most GHG-intensive and GHG-emitting sectors, where the most impact can be made.

- Use decarbonization scenarios from “credible and well-recognised” sources, rely conservatively on negative emissions technologies, and minimize misalignment with UN Sustainable Development Goals
- Within 18 months of joining the Alliance, set 2030 targets and intermediary targets at five year increments until 2050, consistent with the methodology provided in the UNEP-FI Guidelines for Climate Target Setting for Banks
- Annually publish absolute emissions and/or emissions intensity targets following specified reporting protocols and methodologies.
- Contribute to the ongoing development of the Guidelines³. The guidelines outline four principles for target setting, are:
 - 1- Banks shall set and publicly disclose long-term and intermediate targets to support meeting the temperature goals of the Paris Agreement.
 - 2- Banks shall establish an emissions baseline and annually measure reporting profiles for their lending profiles and investments activities.
 - 3- Banks shall use widely accepted science-based decarbonization scenarios to set both long term and intermediate targets that are aligned with Paris agreement.
 - 4- Banks shall regularly review targets to ensure consistency with the current climate science⁴.

At this initial stage, members are required to publish a high-level transition plan approved by the bank’s highest executive level within 12 months of setting its targets. This requirement for executive approval is intended to ensure that member banks receive support from the highest levels of their organizations in setting and implementing these targets. Reporting must be done in a manner consistent with the Guidelines.

- Each individual bank’s adherence to the Commitment Statement and Guidelines is reviewed by the Secretariat (i.e., UNEP-FI) within 18 months after joining the Alliance and annually thereafter.

³ Commitment statement, UNEP, <https://www.unepfi.org/net-zero-banking/commitment/>. Accessed August 2022

⁴ UNEP, Guidelines for Climate Target setting for banks, April 2021, P:4, : <https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf>

Expected Outcome

- In case the bank is found not adherent to the principles: it is subject to a probationary period wherein the bank will execute a plan, agreed to by the Secretariat, to address its shortcomings with respect to the commitment⁵.

At the first annual meeting of the Steering Group's upper tier in late December 2021, the Alliance identified five focus areas for development in 2022:

- constructing a strong net-zero architecture that includes clear implementation guidelines within the Alliance
- harmonizing disclosure standards
- collaborating with policymakers
- improving its geographic representation.
- improving clean energy investments and capital flows to emerging markets and developing countries to meet net-zero goals in these regions by 2050⁶.

Illustrative Videos on Embedded Finance

What is Net Zero: the Economist

<https://www.youtube.com/watch?v=aM31RyxSSCw>

Net Zero Banking Alliance:

<https://www.youtube.com/watch?v=4JJtbVZQrsI>

Comprehensive session on the current state of Net Zero Banking:

<https://www.youtube.com/watch?v=dT32bQPt3UA>

⁵ Lindy Hall, Ryan Vanderlip, Ben Lippard, and Margaret Pelso, "Net zero Banking Alliance at one year: Impactful or uneventful?", 15th March 2022, Vinson and Elkins, " <https://www.velaw.com/insights/net-zero-banking-alliance-at-one-year-impactful-or-uneventful/>. Accessed August 2022

⁶ Net-Zero Banking Alliance Convenes First Annual Meeting of Steering Group's Principals, UNEP-FI (Dec. 20, 2021), <https://www.unepfi.org/news/industries/banking/net-zero-banking-alliance-convenes-first-annual-meeting-of-steering-groups-principals/>.

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