



# Aligning Multilateral Development Banks' Internal Operations with the Paris Agreement

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- » The Multilateral Development Banks (MDBs) have committed to align not only financed projects, but also internal activities with the Paris Agreement. This memo looks at key principles to be taken into account in that effort.
- » MDBs need to decarbonise their internal operations as soon as possible but by 2050 at the latest with interim targets and milestones every five- years.
- » In order to fulfill a role model function, we suggest turning the IPCC's decarbonisation target of net-zero CO<sub>2</sub> by 2050 into an ambitious benchmark for internal operations.
- » We recommend specifying targets for key performance indicators and to define a concrete pathway for decarbonisation that cover a range of emissions sources that are within the banks' sphere of influence - from electricity, heating, cooling, to commuting and employee retirement schemes.
- » Lastly, we recommend aiming for ambitious mitigation efforts internally avoiding every ton that can be avoided and limiting the role of offsetting.

## Introduction

In December 2018, the Multilateral Development Banks (MDBs) announced six building blocks for Paris alignment, including Building Block 6 on aligning internal operations with the Paris Agreement:<sup>i</sup> “We will progressively ensure that our internal operations, including facilities and other internal policies, are also in line with the objectives of the Paris Agreement.”

While the footprint of internal activities is much smaller than the footprint of the banks' portfolios, internal alignment with Paris has three essential functions:

**Signaling:** Because MDBs are important global players, particularly in the developing world, they serve as role models and should also lead ambition on climate

change mitigation. This also holds for approaches to align internal activities and policies.

**Impact:** While greenhouse gas (GHG) emissions from the banks' internal activities are small compared to other MDB activities, alignment with Paris means cutting these emissions to a minimum.

**Consistency:** If MDBs' portfolios are aligned with Paris their internal operations should be too. For example, if a coal project is considered misaligned on mitigation, MDBs should ensure that internal activities do not rely on coal-fired electricity. Failure to do so works counter to climate efforts and presents a reputational risk to the institution.

This memo explores and provides recommendations on how Paris alignment should be reflected in MDB's internal operations, focused on mitigation of climate change. The analysis aims to consolidate best practice while framing measures in the context of the Paris Agreement. It also aims to foster knowledge sharing among MDBs to create a common comprehensive and stringent approach to internal operations alignment.

Internal incentive structures to support a Paris-aligned portfolio do not affect banks' non-portfolio GHG footprints, but are a critical part of internal policy making. MDBs are developing methods for assessing the alignment of the banks' portfolios with the mitigation and adaptation objectives of the Paris Agree-

ment under Building Blocks 1 and 2 of their framework. For those methods to be smoothly implemented and used in a robust manner, it will be necessary to motivate project staff to support such approaches. On the one hand they might need training to understand elements of the methodologies that affect their projects, on the other hand, internal incentive structures at the banks can support acceptance and use of the methods, as well as favoring projects that are Paris aligned. This paper focuses on the non-portfolio footprint and does not discuss internal incentives further. We recommend careful consideration of this issue during the design and implementation of the methods in Building Blocks 1 and 2.

## Overarching Principles

This paper suggests the following key principles for aligning internal operations of the Multilateral Development Banks (MDBs) with the Paris Agreement:

**1 | Set a strategy to make MDB internal operations zero carbon as soon as possible but latest by 2050, with milestones every five years.** The Intergovernmental Panel on Climate Change (IPCC) special report on 1.5°C states that global CO<sub>2</sub> emissions need to be at net zero around 2050. Considering the MDBs' function of role model, we suggest turning the ambitious decarbonization target into a benchmark for internal operations.

**2 | Specify targets for key performance indicators to define a concrete pathway for decarbonization.** Indicators need to be measured and reported periodically to assess progress towards the overall decarbonization target.

**3 | Aim for ambitious mitigation efforts internally and limit the role of offsetting.** To limit temperature rise to 1.5°C in line with the Paris Agreement, global emissions need to decrease rapidly, which means that every ton of CO<sub>2</sub> that can be avoided, should be avoided.

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<sup>i</sup> World Bank. *The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development.* 2018.

## Implementing Building Block 6

### Defining MDBs' non-portfolio GHG Footprint

A bank's non-portfolio GHG footprint includes GHG emissions caused by the MDB's internal operations, either directly or indirectly. Direct or scope 1 emissions are those emitted at bank facilities or through other bank property, such as vehicles. For most MDBs, direct emissions are limited and mostly consist of emissions from fossil-fueled systems for heating/cooling and bank-owned vehicles. Scope 2 and 3 are

indirect emissions. Scope 2 emissions are associated with energy use such as electricity but are emitted off site. Scope 3 emissions are those associated with internal operations that increase emissions elsewhere, such as through business travel or in the supply chain such as through equipment procurement. Since MDBs operate in many countries, it is critical to not focus only on headquarters but to take into account regional offices for the Paris alignment of internal operations.

**Table 1 | Definition and examples for different "scopes" of GHG emissions**

GHG emissions	Definition and examples
Scope 1	GHG emissions on site – eg. due to fossil fuel combustion for heating purposes or caused by the banks' own vehicles
Scope 2	Indirect GHG emissions associated with offsite generation of electricity, heating/cooling, or steam purchased for own consumption
Scope 3	Indirect GHG emissions other than those covered in scope 2 usually refer to transport fuel and power used for transport, emissions from waste management, emissions from energy consumption in external data centers and emissions generated in the production of office supplies. We also count emissions from MDBs' pension funds as scope 3 emissions

Source: Authors' own compilation based on Greenhouse Gas Protocol (<http://ghgprotocol.org/>)

### Actions To Align Internal Activities

MDBs already account for emissions of their internal activities and take actions to reduce them. The European Investment Bank (EIB), for example, has been tracking its internal carbon footprint for ten years and, as of 2019, it reports internal emissions according to the European Union's Eco-Management and Audit Scheme (EMAS).<sup>2,3</sup> The Asian Development Bank (ADB) has conducted carbon footprinting every year since 2013 with information available in its sustainability report.<sup>4</sup> The World Bank provides detailed methodologies for the quantification of emissions to be applied to its headquarters and country offices for every year since 2012.<sup>5</sup>

MDBs play an important role in climate and Paris-aligned finance discussions. Considering MDBs' leading role in climate action, significant resources available and the widespread availability of tools and strategies, MDBs could use this opportunity not only to ramp up efforts but also to align their internal processes with the most ambitious goals of the Paris Agreement. Electricity consumption, business travel and employee

commuting are MDBs' main sources of non-portfolio GHG footprint. As an example, in the EIB GHG footprint, these main groups caused 95% of the bank's non-portfolio emissions in 2018. The following sections describe what activities might lead to Paris-aligned internal operations. The first section presents overarching tools, the following sections look at specific sectors, namely transport and buildings. For each of these, the memo recommends the formulation of key performance indicators to measure progress on alignment and lists important action points to support that progress.

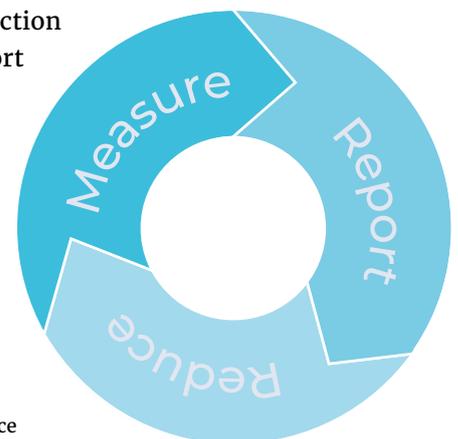


Figure 1  
Measure-Report-Reduce

## Overarching standards and tools to support internal alignment

MDBs already have tools at their disposal that could support internal alignment with the Paris Agreement. However, in their current form they lack the clarity required to lead to decarbonization. To improve, banks should:

1. Create and disclose the **GHG footprints** of their headquarters and country offices.
2. Establish mechanisms to **report emissions** that are not only robust and comprehensive but also transparent to internal and external stakeholders, eg, civil society, shareholders and employees.
3. Set clear strategies to reduce emissions by establishing **ambitious targets** in line with the

decarbonization required under Paris Agreement compatible pathways.

Various standards and certification schemes can support improving the GHG footprint of internal activities. The different standards under ISO 14000 provide a framework for environmental management, also considering GHG footprints. ISO 14064, for example, provides a separate standard on monitoring and reporting of GHG footprints.<sup>6</sup> At EU level, the European Union’s Eco-Management and Audit Scheme is the most commonly used standard and also includes GHG emissions.<sup>7</sup>

Standards focus on monitoring and reporting GHG emissions. Those activities support internal alignment by providing information to the banks identifying relevant internal activities or by fostering environ-

**Table 2 | Examples of standards and tools across MDB internal activities.** Refer to the references for more insights on methods.

Principle	Tool	MDB examples
Measure	GHG footprinting	The EIB has tracked its internal carbon footprint for ten years and published a detailed <a href="#">emissions inventory</a> in April 2019.
		The ADB <a href="#">published</a> its historical emissions series from 2013 to 2017 based on the <a href="#">Greenhouse Gas Protocol</a> .
		The World Bank published its <a href="#">approach</a> to calculating GHG footprint for headquarters and country offices in 2012.
		The EBRD engaged consultants in 2018 to review and assess its footprint.
Report	Environmental Management System	The EIB uses the European Union’s Eco-Management and Audit Scheme (EMAS).
	Sustainability reports	The ADB, IDB and <a href="#">EBRD</a> present their footprint exercises in their yearly sustainability reports.
	Corporate Responsibility reports	The World Bank reports on their emissions in their <a href="#">GRI Index report</a> .  At COP24, the EIB, EBRD, ADB, World Bank and IDB, together with other financial institutions, jointly announced a commitment to make their internal operations climate neutral.
Reduce	Action plans	The ADB has a 10-Point Sustainability in Action Plan.
	Environmental strategies	The Islamic Development Bank has set targets to significantly reduce electricity consumption.

mental responsibility; however, there is no guarantee that they would lead to emissions reductions aligned with the Paris Agreement. Standards provide a robust structure and starting point, but MDBs need to go further by ensuring that emissions reductions go beyond the levels suggested by current standards.

Table 2 illustrates examples of tools and standards that some MDBs are already using, which could also be used by other financial institutions. The methods vary, depending on each MDB's choice regarding which standard is most practical for it, its business model and location (eg, EIB uses a European Standard). This

makes a direct performance comparison difficult and should be considered when setting targets under a joint MDB approach.

MDBs' strategies and action points to reduce emissions from their internal operations do not yet set clear benchmarks in line with the Paris Agreement. The first step to more steep emissions reductions is to set ambitious targets on main emission sources. This approach would provide a clear set of benchmarks that could be evaluated over time by the current measuring and reporting tools.

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## Reducing Emissions from Mobility

**Key performance indicators:** Total distance travelled by plane, modal split of employees' commute, share of electric vehicles in company fleet, transport emissions per full time employee.

**Key action points:** Provide alternatives and incentives to reduce number of flights, promote shift to low-emissions road transportation methods among employees, invest in company-owned electric fleet.

Emissions from MDB mobility are mostly related to long-distance business trips, which can represent over 50% of yearly emissions due to flying being the most carbon-intensive mode of transport, the large number of flights and employee commuting.<sup>3</sup>

The starting point for banks could be setting targets for the electrification of their own vehicle fleets. Although this only represents a small proportion of emissions,

it is important to ensure the alignment with decarbonization of transport required to reach the goals of the Paris Agreement. MDBs should also set targets for the proportion of low-emission commuting, but the most important area is to make progress towards reducing the number of business flights, as this is the single activity with the highest impact in non-portfolio emissions. Below we outline options to support the achievement of such targets.

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## Strategies for reaching ambitious Paris-aligned targets on short-distance trips and employee commuting

**Promote cycling, walking or the use of public transport for employee commuting and events through:**

1. Selecting locations for new offices that are easily accessible by public transport and limiting available parking on site.
2. Improved infrastructure such as secure bicycle parking and onsite showers.
3. Motivational measures such as company competitions on sustainable commuting.
4. Financial incentives, including contributions to public transportation passes.
5. Promotion of carpooling initiatives.
6. Offer home office options to allow employees to work remotely.
7. Transition to company-owned electric vehicles.

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## Strategies for reaching ambitious Paris-aligned targets on long-distance business travel

**Incentivize staff to use public transport to and from airports or train stations**, eg, through developing criteria for reimbursement for the costs of taxis or private cars under certain circumstances.

**Invest in and promote the use of high-quality video conference systems.**

**Incentivize staff to use trains rather than flights wherever feasible**, eg, through compensation for additional hours spent on travel and/or by defining

distances that appear feasible by train (eg, 600km depending on the destination of travel), where an employee would need to apply for approval for specific reasons if a plane was used instead of a train.

**When long-distance air travel cannot be avoided, provide incentives for staff to fly economy class** instead of business class, for example, by giving additional days off, and use direct flights to avoid changing airplanes wherever possible.

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## Reducing emissions from Multilateral Development Bank buildings

**Key performance indicators:** Total energy consumption (electricity and heat) and share of renewables in energy consumption, emissions per full-time employee.

**Key action points:** Invest on energy-efficient buildings and appliances, create initiatives to improve user behavior, and investigate renewable options for electricity and heating.

Emissions from MDB facilities are mostly related to buildings, either direct emissions from space and water heating or emissions from electricity used for cooling, heating, and appliances. In some cases, like the use of air conditioning, fugitive emissions from refrigerants are also included in the building's emissions footprint.

There are various approaches to reduce emissions: First, reduce energy consumption as much as possible through energy-efficient buildings and appliances

and improving user behavior. Second, switch to zero-emission energy sources. Third, where appropriate, install onsite PV such as on the roof of facilities. MDBs should set targets each year as they move to 100% energy from renewables and by how much they aim to reduce energy consumption each year. The level of ambition of these targets should take into account what is required under the Paris Agreement and the leading role MDBs play in climate action discussions (see memo on BB1<sup>8</sup>). We outline options to support the achievement of these targets.

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## Strategies for reaching ambitious Paris-aligned targets on energy efficiency

**Strive for maximum energy efficiency of bank office buildings.** For long-term decarbonization in line with a 1.5°C pathway, all new buildings should be free of fossil fuel and should be near zero energy as of 2020, and the renovation rate needs to increase to 5% on average globally.<sup>9</sup> Near-zero energy in this context means that the building envelope should be highly efficient, so that almost no heating or cooling is required. The banks could set an internal standard to build or rent only zero-energy buildings and renovate existing office building facilities to maximize efficiency in building energy use.

**Purchase efficient appliances**, eg, IT infrastructure including servers, lighting systems and air conditioning that include energy labels with the highest energy efficiency standard possible. Phase out inefficient equipment.

**Install onsite PV** to provide electricity directly to the bank's facilities. Paired with battery storage, MDBs could contribute to local grid stability and increase electricity supply security in places with less reliable electricity supply.

**Create an environment that supports less energy-intensive user behavior.** MDBs could organize staff training or implement other measures to foster behavioral change within the organization. It is important that these measures focus on facilitating action and engaging the staff instead of creating additional tasks for employees. For example, MDBs could:

1. **Organize training** on heating and cooling energy-saving opportunities, such as opening or closing windows only in specific situations.
2. **Raise awareness**, eg, through campaigns that aim to reduce energy use or collect suggestions from employees on how the bank could reduce energy consumption.
3. **Establish processes or systems to ensure computers and other appliances are turned off** when staff leave the office.
4. **Offer incentives to reduce electricity use**, eg, half the savings from reduced power of a facility could pay for an activity chosen by employees at that facility, or by offering prizes to facilities with highest reductions.

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## Strategies for reaching ambitious Paris-aligned targets on energy sources

**Paris-aligned banks should move to a zero-carbon electricity supplier.** When onsite PV is not an option or is insufficient, MDBs should procure their electricity from renewable energy suppliers, ideally through a Purchase Power Agreement (PPA). If PPAs are not an option, general electricity providers that offer green electricity may be considered. In such cases, certification of authenticity must be thoroughly vetted to ensure the bank is supporting the development of aligned technologies, eg, wind, solar and small hydro.

**MDBs can increase the share of renewable energy used for heating or cooling** by using solar thermal water heating and heat pumps powered by renewable electricity. If an MDB finds and supports a pilot project that increases zero-carbon energy supply in the country, this model could be replicated by others in the country or region.

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## Reducing emissions in other areas

Setting targets for key performance indicators for buildings and mobility could lead to significant emissions reductions due to the high contribution of these sectors to overall non-portfolio emissions. Nonetheless, there may be a variety of other scope 3 emissions associated with the banks' internal activities that require a comprehensive response. Below are some key elements of such a response:

### **Cafeteria food options and catering of events:**

Sustainable nutrition will be a central part of a Paris-aligned future, as roughly a quarter of global greenhouse gas emissions are directly or indirectly associated with food. To achieve Paris alignment in this area, it is important to:

1. Offer vegetarian options and limit meat in the menu. Change the default option: catering at events could be vegetarian per default with the option for attendees to request beforehand a meal containing meat if preferred.
2. Minimize food waste by, for example, ensuring a complete cold chain in the kitchen and sales area or establishing incentives to reduce waste in the cafeteria, eg, donation of leftover food.
3. Move to seasonal locally produced and organic products where possible.
4. Provide adequate disposal facilities for food waste, separating waste well and composting where possible.
5. Minimize food packaging.

### **Sustainable pension funds:**

Banks and their staff invest in pension funds for staff retirement. Avoiding fossil-fuel financial assets in staff pension funds may be considered within banks' fiduciary duty in their pension-providing role. For Paris alignment it is necessary either to:

1. Direct finance flows to retirement accounts that exclusively invest in Paris-aligned activities. Some guidance exists in literature on how to approach such a task<sup>10,11</sup>, or
2. Engage with pension funds that MDBs invest in and support them in aligning the portfolio with the Paris Agreement, rather than switching from one fund to another. If MDBs continue to invest in funds that are "in the process of aligning", there should be a clear target year for when the portfolios of those funds will be completely aligned.

### **Purchase and disposal of office supplies and equipment:**

1. Buy recycled paper and ensure paper recycling takes place in bank offices.
2. Dispose of air conditioning responsibly to avoid fugitive emissions, and other office equipment to ensure responsible e-waste handling.
3. Ensure suppliers of other office materials aim to reduce emissions by demanding supply certification.

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## **The role of offsetting emissions in a Paris-aligned bank**

Even if MDBs meet all targets set for the areas described in previous sections, the measures taken may not lead to zero emissions, given that it will be difficult to avoid all emissions – at least in the short term, eg, from long-distance flights. The question is what banks should do with the remaining emissions that cannot be avoided.

One approach to this question is offsetting, where the emitter claims to have supported the reduction of the same volume of GHG emissions elsewhere, typically through a cash payment. These emissions should be reported separately from the GHG inventory.

Article 6 of the Paris Agreement provides a placeholder for a mechanism that may facilitate international transfer of mitigation outcomes (ITMOs), but the details of that mechanism remain undefined, partly due to uncertainties related to the risks and opportunities that different constructions may entail. This mechanism needs to include strong and effective safeguards to ensure that it can support, rather than undermine, efforts for ambition raising under the Paris Agreement. Among other safeguards, this requires that the mechanism exclusively targets mitigation options that are otherwise inaccessible to unilateral action from the host country, and which can support countries to adopt transformational technologies that facilitate long-term decarbonization. Without such restrictions, host country governments may be

presented with perverse incentives for restricting the ambition of their own domestic agenda.<sup>12</sup>

MDBs that want to pursue traditional offsetting should make sure that offsetting projects are conducted with social and environmental safeguards comparable to those of the bank's operations. Further, they should ensure and be able to prove that they select mitigation projects that are extremely ambitious and therefore inaccessible to the host country with any other means, both at the point of project initiation and over the duration of the crediting period (concept of "high-hanging fruits" as opposed to the Clean Development Mechanism approach to cover "low-hanging fruit"). In this regard, the scope of actions and targets in a country's current Nationally Determined Contribution (NDC) is not the relevant consideration, but rather an assessment of what actions could reasonably be accessible to a country in current or future NDC cycles. This may be difficult to objectively assess and prove. Although offsetting approaches have been traditionally favored by those who wish to claim that their emissions have been fully compensated to an equivalent level, often described as carbon neutrality, such a compensation claim will be difficult to substantiate and will always entail a degree of uncertainty in the context of the Paris Agreement.

Another option, which is gaining traction as a more transparent alternative to offsetting is the **contribution claim approach**, in which emitters forego a carbon neutrality claim in favor of a transparent communication that includes a recognition of their unavoidable emissions as well as reporting of contributions made to supporting climate change projects elsewhere. A key difference is that the emitter claims to have only contributed to those mitigation activities, rather than assuming ownership of their outcomes and counting them against their own emissions.

In practice, the contribution claim approach could be operationalized by setting a sufficiently high internal carbon price through contributing a certain amount for each ton emitted, with the sum then used to support external projects for climate change action. The carbon price should be set in a way that it effectively steers decision making in the organization. As the objective of this approach is not to create and use emission reduction credits, there is a much greater degree of flexibility in the type of activities that can be supported: for example, climate change mitigation activities that may not yet be mature enough to produce quantifiable emission reduction outcomes but have high transformational potential could be supported, as could projects that support adaptation or resilience. At the moment, there is no “database” of activities that would be worth supporting, so it may be a challenge to select them. If more emitting organizations supported this approach, such a database or even certification scheme for activities could be built up.

A key component of the contribution claim approach is that the emitter regularly provides full transparency on the choices made and the uncertainties involved, with an aim to jointly learn and improve upon these choices and uncertainties over time.

For those MDBs that still want to offset (unavoidable) emissions, it is critical to aim for “high-quality offsets”. Broekhoff et al.<sup>13</sup> describe what is required for such an approach:

First, an organization needs to reduce emissions as far as possible, to avoid that offsetting is detrimental to any own climate action. Second, the purchasing organization needs to have full confidence in the quality of the credits in terms of their additionality, quantification, permanence, leakage avoidance, exclusive claim to emission reductions and avoidance of social and environmental harms. According to Broekhoff et al., existing certification programs do not necessarily guarantee the required quality. In their report, Broekhoff et al. provide detailed tables for different project types that indicate potential concerns for the quality criteria. Finally, Broekhoff et al. also stress that claiming carbon neutrality based on offsetting may distract from climate action at the purchasing organization.

Under the standards that MDBs use for reporting emissions from internal operations, they report offsets separately from GHG emissions of internal operations. This means that the reporting standards are already in line with the idea of refraining from claiming carbon neutrality.

## Recommendations

MDBs should build on existing tools and processes (eg, environmental standards and GHG footprint exercises) but also acknowledge that those alone are insufficient for Paris alignment, as they do not prescribe a Paris-aligned level of effort.

Banks need to set a strategy to make their internal operations zero carbon as soon as possible but at the latest by 2050, with milestones every five years. This strategy should ideally specify key performance indicators that should be tracked periodically to assess progress towards the overall decarbonization target. To bring internal operations in line with the Paris Agreement, we suggest that as of today MDBs:

1. **Only invest in best available technologies** for appliances and buildings.
2. **Replace carbon-intensive or inefficient infrastructure and appliances**, eg, fossil-fueled cars and inefficient buildings.
3. **Invest in onsite renewable energy, and where insufficient procure it from elsewhere.**
4. **Create an enabling environment for staff** to shift towards less emission-intensive behaviors.
5. **Develop an approach for Paris-aligned investments for employee pension funds.**
6. **Move from an offsetting approach to a “contribution claim approach”.**

A tool that can support these elements is a shadow carbon price for purchasing decisions and other internal processes.

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## Memo contributors

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