SEI Stockholm Environment Institute

Aligning financial flows under the Paris Agreement

The case of banks in Sweden

SEI policy brief
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MISUM

IMAGE (ABOVE): Slussen, Stockholm
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Key messages

- **Article 2.1c of the 2015 Paris Agreement requires "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". Banks are one obvious route for tracking these financial flows, but transparency is limited.**
- **The data available show that the five largest banks in Sweden have limited alignment with Article 2.1c. Together, they have a steadily increasing volume of financing to highly emitting sectors, such as oil and gas exploration and production since the Paris Agreement was signed.**
- **The magnitude of "green" investments (green loans and green bonds) has increased, while overall proceeds are significantly lower compared to both "brown" (highly emitting) and "grey" (remainder) sectoral flows. These categories would benefit from further, internationally established, standardization for clarifying the details of these investments.**
- **A complete picture of "Paris-compliant" financial flows requires increasing the availability of more granular data. The transition of a sector and the whole economy cannot be completely charted without transparency in financing (i.e., how funds are disbursed and used) and examining how investment decisions are made. This can be achieved through stakeholder engagement and regulatory requirements for disclosure.**
- **Banks in Sweden would benefit from the globally enforceable and accepted accounting and sustainability standards on disclosure under development by the International Sustainability Standards Board (ISSB) under the IFRS Foundation.**

A recent study from SEI and MISUM, for the Swedish EPA or Naturvårdsverket, mapped the financial flows issued by the five biggest lenders in Sweden. The results suggest a limited alignment with the Paris Agreement, which contains guidance on financial investment and other activities to prevent average global warming above 2°C and preferably below 1.5°C.

This study analysed the available data on the domestic and international capital flows from the five largest lenders in Sweden and their alignment with the Paris Agreement. Between 2010 and 2020, the five largest lenders in Sweden – Svenska Handelsbanken, Skandinaviska Enskilda Banken (SEB), Swedbank, Danske Bank and Nordea – gradually increased the volume of their investments to highly emitting sectors, such as oil and gas exploration and production. Our analyses indicate a limited alignment with the Paris Agreement's climate goals. We found that financing gradually increased in volume to highly emitting sectors, such as oil and gas exploration and production. The sampled banks have facilitated around USD 150 billion to these sectors since the Paris Agreement took effect in 2016, mainly through syndicated loans (USD 104.4 bn) and bond issuance underwritings (USD 36.3 bn).

We categorized these high-emitting recipients of financial investments as “brown”, low-emitting as “green”, and the rest, “grey”. Grey sectors could include elements of both brown and green activities, and are therefore in the grey zone.

The largest expansion of financial flows from the five biggest lenders in Sweden took place in the grey sectors, e.g. banks, real estate and corporate finance services. The magnitude of green investments in the form of loans and bonds has also increased, but the overall proceeds (the cash exchanged in a transaction) are significantly lower than both brown and grey sectoral flows.

When projects that fund mitigation of emissions-intensive economic activities are included under the green tag, the distribution of financial flows between brown and green remains similar. At less than half a percent of the total, “transition” financing – meant to replace fossil-based production technology to an environmentally friendly one – has little impact on the distribution of financial flows. Brown flows account for roughly a fifth of the whole, and green about a tenth, while the rest – 67% or over two-thirds – are grey.

These results must be put into the larger context of markets and other activities before and after the Paris Agreement, adopted in 2015. A spike in both underwritings and loan issuances in 2014 make new financial flows issued between 2015–2020 seem to decline, even though the new flows in 2020 were substantially higher than in 2010 (e.g. corporate loans to brown sectors). Increasing oil prices from 2003 to 2014 and their collapse in 2014–2016, discussed in detail in the report, may also be reflected in our sample, which led us to trace flows in two windows, from 2010–2020 and 2015–2020, to attempt to tease out effects of the Paris Agreement and outside financial market impacts.

Other challenges to this analysis include the lack of detail in the data available. For example, data are lacking on the final destinations of capital flows, especially for banks and other services, such as how the companies that receive investments allocate that capital. Another complication comes with assessing whether investments are green or brown, as no clear categorization of sectors is currently available.

Addressing these data challenges should be a top priority for creating transparency on the alignment of financial flows with climate targets. That will require standardization and established definitions of green and brown flows, among other categorizations. Given that the highest fraction of new loans and underwritings from lenders in Sweden are provided to Western European firms, EU-level regulations such as the EU taxonomy for sustainable activities may eventually address transparency issues and the lack of granular data.

Placing financial flows on a “Paris-compliant” trajectory requires understanding the driving forces behind these numbers. By engaging with relevant stakeholders and providing regulatory guidance on what and how to report relevant financial activities, proper data and analyses will assist in the transition of climate-relevant sectors and the whole economy, by informing policy and future investments.

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