



# Climate Action in Financial Institutions

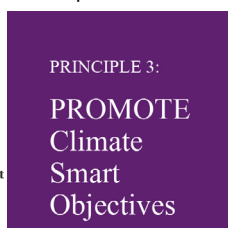
PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## EBRD's Green Economy Financing Facilities

Institution      Principle      Related Work Stream(s)



Publication date: 2017

Date Policy/Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Established?
<p>The tool was first piloted by the EBRD in 2004 when financial institutions were curious about the business potential arising from energy efficiency investment opportunities.</p>	<p>The overall capacity has remained in-line with business-as-usual scenarios. However, the inclusion of dedicated staff provides a more effective deployment of resources by removing the 'technical' origination and implementation burden from bankers, while facilitating consistent implementation expertise.</p>	<p>The tool was established at the working-level to address a market need and has since been included as a key delivery mechanism under the EBRD's Green economy Transition (GET) approach which was launched in 2015 and aims to raise the share of the Bank's green business volume from an average of 25 per cent over the last decade to 40 per cent by 2020.</p>
Monitoring, reporting tools		How Implemented
<p>As part of a broader initiative, the EBRD implemented a climate finance and climate impact tracking tool.</p>		<p>The tool was implemented through existing structures with additional technical expertise outsourced to consultants overseen by in-house expertise. Today a dedicated team is responsible for coordinating GEFF programmes with banking teams, partner financial institutions and consultants.</p>

## Key Lessons

- Green finance has been firmly anchored in the Banking department of the EBRD since 1994 and is overseen by the head of Banking operations. It is supported by a Banking hierarchy that is equal in rank to the financial transactions and which sets the Banking mainstreaming targets. This has helped support the development and implementation of the GEFF.
- To implement the GEFF, the Banking department has allocated dedicated resources to assess market potential, originate deals and attract co-finance, as well as to implement robust procedures for managing, reporting and verifying the use of proceeds and the resulting impact. In-house expertise is essential for leveraging outsourced expertise effectively.
- Experience demonstrates that it is risky to implement a 'green' strategy without appropriate tools and guidance. Successful mainstreaming engages all levels of a financial institution: from management endorsement, institutional strategy approval and target setting to deal tracking systems, branch-level origination support and individual staff objectives. This has facilitated the roll-out and continuity of the GEFF.

## Introduction

The 'green' element of financing operations has been embedded in banking operations at EBRD since 1994, in cooperation with the Bank's environment and economist units. By 2004, the Bank had acknowledged that, outside of its direct finance influence barriers prevented the climate finance market from functioning on pure economic principles – particularly in the small and medium sized business sector and the residential sector. In addition to finance, support was required in the form of technical expertise to demonstrate the business case for efficiency investments.

Many businesses, service providers and households were not fully aware of the potential benefits of higher performance technologies and exhibited 'entrenched behaviour' whereby they gave preference to the smaller upfront technology costs typically associated with lower efficiency.

While higher performance technologies offered the opportunity to increase comfort or competitiveness - and at the same time reducing operating costs and utility bills, the EBRD recognised that the shift to environmentally sustainable economies required a transformation of markets and the large-scale deployment of new skills and technology finance.

## Development and Design

The EBRD Green Economy Financing Facilities (GEFF) programme provides access to the finance needed to invest in higher performance technologies through lines of credit to local banks, microfinance institutions and leasing companies. Minimum performance criteria to make it easier to identify and select technologies with higher efficiency, helping to address entrenched behaviour.

These local financial institutions have highly efficient finance distribution networks, but are not accustomed to originating investment in climate technologies among their client base. The innovative focus and demanding technical performance standards of the EBRD Programme is a departure from the standard commercial financing practices of most local financial institutions. As such, mainstreaming climate finance is a significant undertaking that can carry relatively high implementation costs.

## Implementation

The EBRD financing facilities go far beyond providing simple lines of finance. The true added-value of the GEFF programme comes from technical expertise – delivered via competitively selected local and international experts – that provides direct support to financial institutions and their clients throughout the entire project cycle.

Project development support helps enhance the financial and environmental impact of prospective investments, helping demonstrate the business case for investing in higher performance technologies. This includes illustrating the business case for accessing commercial sources of finance to implement the longer-term solutions otherwise constrained by affordability.

Knowledge transfer, technical tools, on-the-job training, and the actual delivery of the climate investments, help local financial institutions to identify and prioritise the associated commercial opportunities. Outreach activities that raise awareness about 'green' benefits, help originate new investment opportunities and create demand for financing. 'Green' finance then becomes an integrated and permanent aspect of financial institutions' daily business practices, making them more resilient to climate-related financial risks.

By working with multiple local financial institutions, the EBRD programme instils competition in the market and helps influence a far greater number of investments than the EBRD could support directly.

The increased uptake of climate technologies leads to better established climate technology supply chains and an increased market penetration of such technologies, ultimately leading to enhanced impact on climate mitigation and resilience.

### Experience and Impact

The Bank's independent Evaluation Department carried out a [Special Study](#) in 2015 on the financing facilities run by EBRD – including the green and the sustainable energy facilities. It found this tool to be very

positive in terms of meeting its operational objectives. The study identified ways to build on and enhance this success, including formalising a programmatic approach to improve consistency and efficiency in design and implementation of the facilities.

From the time when the EBRD financing facilities were established over 10 years ago, more than 130 financial institutions have participated, reaching over 120,000 clients and avoiding more than 6 million tonnes of CO2 equivalent emissions annually. Today, these efforts support more than €0.5 billion in EBRD finance per year and the tool is now being used to further scale-up financing in this area.

