SUSTAINABLE FINANCE
ESSENTIAL SUPPORT ON THE WAY TOWARDS REACHING SDGs

IFC FINANCIAL INSTITUTIONS GROUP

Creating Markets, Creating Opportunities

October 2021
1. Sustainable Finance Overview
2. Role of Capital Markets
3. Sustainability Road Map – Example from Georgia
SUSTAINABLE FINANCE OVERVIEW
SUSTAINABLE FINANCE IS A…
Different economic sectors prioritize different SDGs

1. Energy utilities & resources
   - SDG 8: Decent Work and Economic Growth
   - SDG 13: Climate Action
2. Consumer markets
   - SDG 12: Responsible Consumption and Production
   - SDG 13: Climate Action
3. Consumer markets
   - SDG 7: Affordable and Clean Energy
   - SDG 4: Quality Education
4. Industrial manufacturing & automotive
   - SDG 3: Good Health and Well-being
   - SDG 9: Industry, Innovation and Infrastructure
5. Technology, media & telecoms
   - SDG 9: Industry, Innovation and Infrastructure

Source: PwC, SDG Challenge 2019
BUSINESS AS USUAL...IS OVER

The future is no longer about money, it is about value creation:

ESG integration

SDG agenda

From business as usual to a Sustainable Business model through Sustainable finance
WHAT IS SUSTAINABLE FINANCE?

Sustainability

Economy

Environment

Social

Governance

Climate Change Mitigation

Climate Change Adaptation

Other Environment

Gender

Conventional financing

Climate financing

Green Finance

Sustainable Finance

Source: Adapted from UNEP Inquiry (2012)
The sustainable finance ecosystem...

& its catalysts...

- Country NDCs & Climate Change National Plans
- Green finance regulation
- Green taxonomies
- ESG best-practices
- Climate stress-testing
- Market guidelines for green issuance
- Reporting & disclosure standards
- New financial products & instruments

Financial Sector

- Sustainable & Responsible Investing
  - IFIs / MDBs
  - Asset Managers
  - Impact Investors
  - Pension Funds
  - Insurance Companies
- Sustainable & Responsible Banking
- Green Finance mechanisms & investments
- Green Banking transformation journey

Real Sector

- Key Economic Systems Climate Transitions
- Energy Agriculture, Food, Water & Land Cities Transport Manufacturing

Enabling environment

Financial regulators & supervisors
Governments / Ministry Fin. Associations Stock Exchanges
Rating agencies & index providers Audit & verification providers
International/national initiatives, standards & collaboration networks

Greener Systems & Solutions

- Climate-Smart Agriculture
- Green Buildings & Cities
- Renewable Energy
- Distributed Generation
- Energy Efficiency
- Water & Waste Management
- Circular Economy
- Sustainable Transport & Mobility

NOT EXHAUSTIVE

THE SUSTAINABLE FINANCE ECO-SYSTEM
CAPITAL MARKETS ARE CORE TO ACHIEVING GLOBAL CLIMATE TARGETS

IFC identified US$23 trillion climate opportunities across 21 emerging market economies by 2030

EM banks cannot finance it on their own – even if they increase climate assets to 30% by 2030 (up from 7% in 2016) that can only finance US$13 trillion

The additional US$10+ trillion of these investments needs to be funded by debt capital markets

The growing green bonds market (US$1.3 trillion by 2021E, +126% y-y) is expected to play an important role in this

At US$200+ trillion, global capital markets are 900x the size of the DFI investment universe. DFIs need to mobilize the 900x for much-needed impact investments in EM

# COMPARISON OF SUSTAINABLE FUNDING SOLUTIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>Green Bond</th>
<th>Blue Bond</th>
<th>Transition Bond</th>
<th>Sustainability-linked Bond</th>
<th>Sustainability Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intent</strong></td>
<td>Underlying projects that are green eligible</td>
<td>Underlying projects that are blue eligible</td>
<td>Implement decarbonization strategy and/or projects that contribute to decarbonization by 2050</td>
<td>Incentivizes the borrower’s / sub-borrower’s achievement of ambitious, predetermined sustainability performance objectives</td>
<td>Finance a combination of both Green and Social Projects</td>
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<td>Finance eligible blue projects, e.g., investments in ocean / water friendly product manufacturing, sustainable fisheries / seafood processing and shipping, sustainable tourism, sustainable water supply / treatment, waste(water) treatment in areas connected to rivers or coastal water basins</td>
<td>Finance eligible transition activities/assets in carbon-intensive industries, e.g., greenfield gas power plants displacing coal, investments in cogeneration plants, carbon capture storage, waste-to-energy, gas powered ships, aircraft alternative fuels, energy efficiency investments</td>
<td>Finance eligible green and social projects. Bond coupons may be linked to sustainability performance.</td>
<td>For Social Projects, address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). For Green Projects, refer to Green Bond Intent</td>
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<tr>
<td>Count*</td>
<td>&gt; 11,000</td>
<td>4</td>
<td>25</td>
<td>45</td>
<td>236</td>
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* CBI Sustainable Debt Market, 09-2021
** Bloomberg New Energy Finance as of 07/2020
Strong growth in global & EM green and sustainability Bond Issuances

**Global Sustainability Bond & Loan Issuance ($ bn)**

- The global climate & sustainability bond market (green, social, sustainability, sustainability-linked) reached US$569 billion in the first half of 2021 exceeding the total issuance in all of 2020 of US$530 billion (+49% CAGR between 2016-2020), this is projected to grow to US$1.2 trillion (+126% y-y) in 2021 (source: SEB).

- The sustainability loan market on the other hand, only accounted for 25% (US$192 million) of total sustainability issuance in 1H 2020, signifying the importance of debt capital markets in climate $ sustainability financing.

- Green bonds which account for c.63% of the sustainability bond market still take the lion’s share, driven by investors seeking investments that have a positive & environmental impact. The global green bond market grew by 3x to approx. $300 billion in 2020 from its 2016 levels.

- EM green bond issuance reached $52 billion (+9% 2016-2019 CAGR), while the sustainability bonds are just getting underway, reaching $3.9 billion in 2019 (growing by 13x since 2016).

- The ramp-up speed of the EGO Fund in reaching its green bond proportion ahead of schedule (42% vs. a required 25% at the end of 3 years), is an attest to the volume of Green bonds available in EMs.
LEADING BY EXAMPLE:
SUSTAINABLE FINANCE ROADMAP FOR GEORGIA
### Increasing Awareness and Capacity Building

- Develop Policies and Guidance to Support Market Action;
- Provide and Facilitate Trainings and Workshops for Stakeholders;
- Conduct Research on Sustainable Finance Topics;
- Establish Sustainable Finance Working Group.

### Sustainable Finance Flows

- Introduce Sustainable Finance Taxonomy;
- Develop Sustainable Finance Guidelines;
- Explore Options for Incentives and Regulations to Stimulate Sustainable Finance Flows.

### ESG Risk Management

- Integrate ESG Considerations in Corporate Governance (CG) Code for Commercial Banks;
- Integrate ESG Considerations in CG Code for Capital Market;
- Develop ESG Risk Management Guidance and Tools.

### Transparency and Market Discipline

- Include Minimum ESG Disclosure Requirements in CG Codes for Commercial Banks and Capital Market;
- Provide Guidance on ESG Reporting and Disclosure;
- Develop Progress Measurement Tools;
- Create an Information Hub.
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The Sustainable Banking and Finance Network (SBFN, formally the "Sustainable Banking Network" or "SBN") is a unique, voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. The 43-member countries represent US$43 trillion (86 percent) of the total banking assets in emerging markets.

The Network was formally launched in September 2012.

SBFN members are committed to moving their financial sectors towards sustainability, with the twin goals of improved ESG risk management (including disclosure of climate risks) and increased capital flows to activities with positive climate impact. It is a platform for knowledge sharing and capacity building that facilitates the mobilization of practical support for members to design and implement national initiatives.

Members from the region:

IFC is ready to support expansion of the sustainable business

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