SUSTAINABLE FINANCE: EXPANDING IN EUROPE AND CENTRAL ASIA

FINANCIAL INSTITUTIONS GROUP, ECA
GREEN BANK LOANS WILL GROW RAPIDLY

Bank loans

Bank lending for climate

2016

7%

US$ 22 Trillion

2030

30%

Forecast of Bank lending

US$ 44.5 Trillion

Great potential for growth and impact.
WHY IS SUSTAINABLE FINANCE IMPORTANT?

Sustainable finance is channeling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economies.

GLOBAL LEVEL
Global sustainable and climate commitments are main drivers of sustainable finance, promoting changes in the current institutional, economic and financial models and international actions.

EUROPEAN LEVEL
European financial policy framework aimed at reorienting capital flows towards sustainable investment and initiatives that boost sustainable development.

NATIONAL LEVEL
National goals and sustainability targets in alignment with European/global requirements.

INDUSTRY LEVEL
All industry actors and economy sectors have to adjust their current operational and strategic outlook with the national targets and take advantage of the related business opportunities.
How climate risks affect financial institutions

Environment- and climate-related risks

**Transition risks**
- Policy and regulation
- Technology development
- Consumer preferences

**Physical risks**
- Chronic (e.g. temperature, precipitation, agricultural productivity, sea levels)
- Acute (e.g. heatwaves, floods, cyclones and wildfires)

Economic transmission channels

**Micro**
- Affecting individual businesses and households
  - **Businesses**
    - Property damage and business disruption from severe weather
    - Stranded assets and new capital expenditure due to transition
    - Changing demand and costs
    - Legal liability (from failure to mitigate or adapt)
  - **Households**
    - Loss of income (from weather disruption and health impacts, labour market frictions)
    - Property damage (from severe weather) or restrictions (from low-carbon policies) increasing costs and affecting valuations

**Macro**
- Aggregate impacts on the macroeconomy
  - Capital depreciation and increased investment
  - Shifts in prices (from structural changes, supply shocks)
  - Productivity changes (from severe heat, diversion of investment to mitigation and adaptation, higher risk aversion)
  - Labour market frictions (from physical and transition risks)
  - Socioeconomic changes (from changing consumption patterns, migration, conflict)
  - Other impacts on international trade, government revenues, fiscal space, output, interest rates and exchange rates.

Financial risks

**Credit risk**
- Defaults by businesses and households
- Collateral depreciation

**Market risk**
- Repricing of equities, fixed income, commodities etc.

**Underwriting risk**
- Increased insured losses
- Increased insurance gap

**Operational risk**
- Supply chain disruption
- Forced facility closure

**Liquidity risk**
- Increased demand for liquidity
- Refinancing risk

Source: NGFS
ICF’S 3-PRONGED APPROACH TO GREEN FINANCE

**IFC GREEN FINANCE ADVISORY APPROACH**

**Regulatory Environment**
- Sustainable Banking Framework
- Green Bond Principles/Taxonomy
- ESG
- Sustainable Banking Network

**Capacity Building for Financial Institutions**
- What is green finance?
- Already financing green?
- How to go green?
- Sharing knowledge Green Banking Academy

**Demand Side Development – Awareness raising**
- Economic/financial analysis of green value chains
- Cultivating demand
- Demand side tools such as branding, GHG attributions, specialized financial products
Global Green Bond issuance is expanding

The $1 trillion green bond world

Cumulative issuance
- $50bn+
- $10-50bn
- $1-10bn
- $0-1bn

Supranational $90bn

Sovereign issuance

IN PARTNERSHIP WITH:
- Federal Ministry
  Republic of Austria
  Finance

The $1 trillion: use of proceeds
- Energy 20%
- Buildings 26%
- Transport 19%
- Water 10%
- ITC 1%
- Unallocated & R 2%

The $1 trillion: regions
- Asia-Pacific 22%
- Latin America 24%
- Europe 12%
- North America 12%
- Africa 7%
- Supranational 9%
- Middle East 2%

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What are green bonds?

For green bonds’ use of proceeds, IFC applies its definitions and metrics for climate related activities.

Ex-ante screening of eligible assets is conducted through the process of External Review provided by a third-party.

Ex post reporting is both on the use of proceeds and the impact of the financed projects. The Issuer has to prepare annual impact report on financed projects.
Common Obstacles

- Lack of common understanding of what is green and how to categorize
- Difficulty in measuring impact and tagging green not perceived as being a profitable use of time or substantially offset by better terms
- Lack of awareness and resulting demand
- Unclear how to begin and develop this portfolio
- How can an FI implement an ESG framework in line with investor expectation
THANK YOU!

Discussion – what is needed in Armenia to empower climate finance?