



Greening EU Cooperation

Session 13: Introduction to greening EU investments

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Greening EU COOPERATION
Integrating environment & climate change





Introduction

What is an investment?

- General definition
- In the EU cooperation context
- What is project finance?



So many close concepts



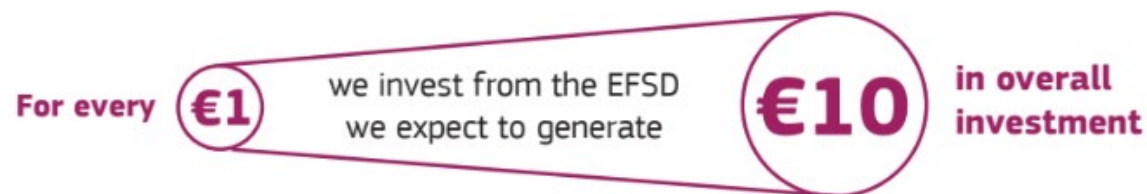
- Green Finance *versus* **Greening Finance**
- **Sustainable Finance** *overarching* Green Finance, Carbon Finance, Climate Finance, Responsible Finance, ESG Finance, Blue Finance, Biodiversity Finance...
- **Transition Finance**



Blended finance: definition

IFC (a main practitioner of blending) defines blended finance as:

“the use of relatively small amounts of concessional donor funds to mitigate specific investment risks and help rebalance risk-reward profiles of pioneering investments that are unable to proceed on strictly commercial terms”



Policy basis

At the crossroads of development and finance European regulations



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A set of overarching frameworks converging towards sustainable investments

- EU 2021/947 NDICI-Global Europe
 - Reference to the Paris Agreement
 - Reference to the Sendai Framework
 - Article 29 (NDCs and no significant impact on environment or climate)
 - Establishment of the **EFSD+**
- Green Deal and **Global Gateway**
- Action Plan for **Sustainable Finance**
- **HLEG** report on **scaling up sustainable finance in LMICS** (May 2024)



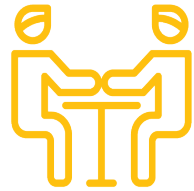
Global Gateway: Key guiding principles for investments



Democratic
values and high
standards



Good governance
and transparency



Equal
partnerships



**Green and
clean**



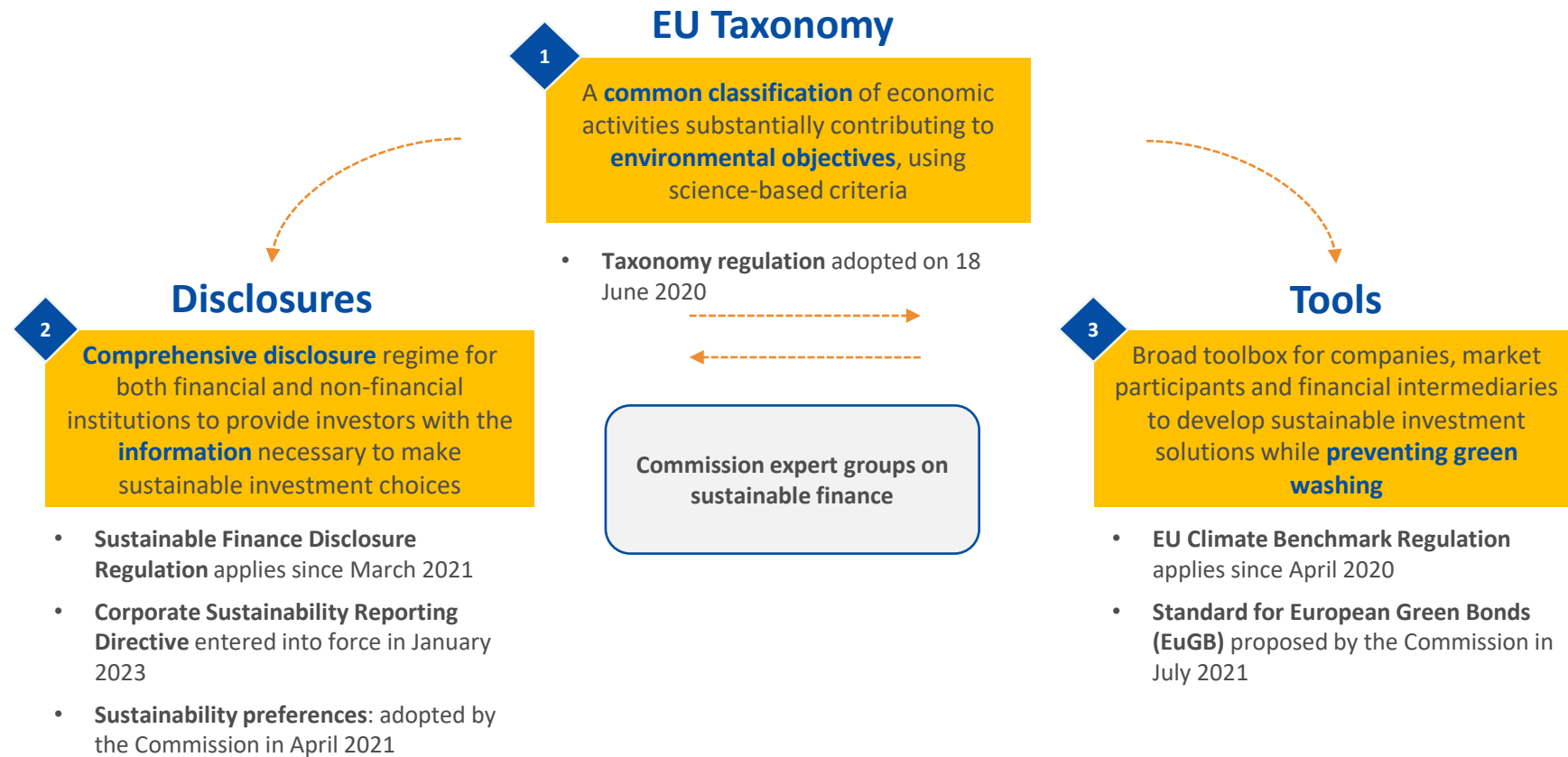
Security
focused



Catalysing
private
sector
investment

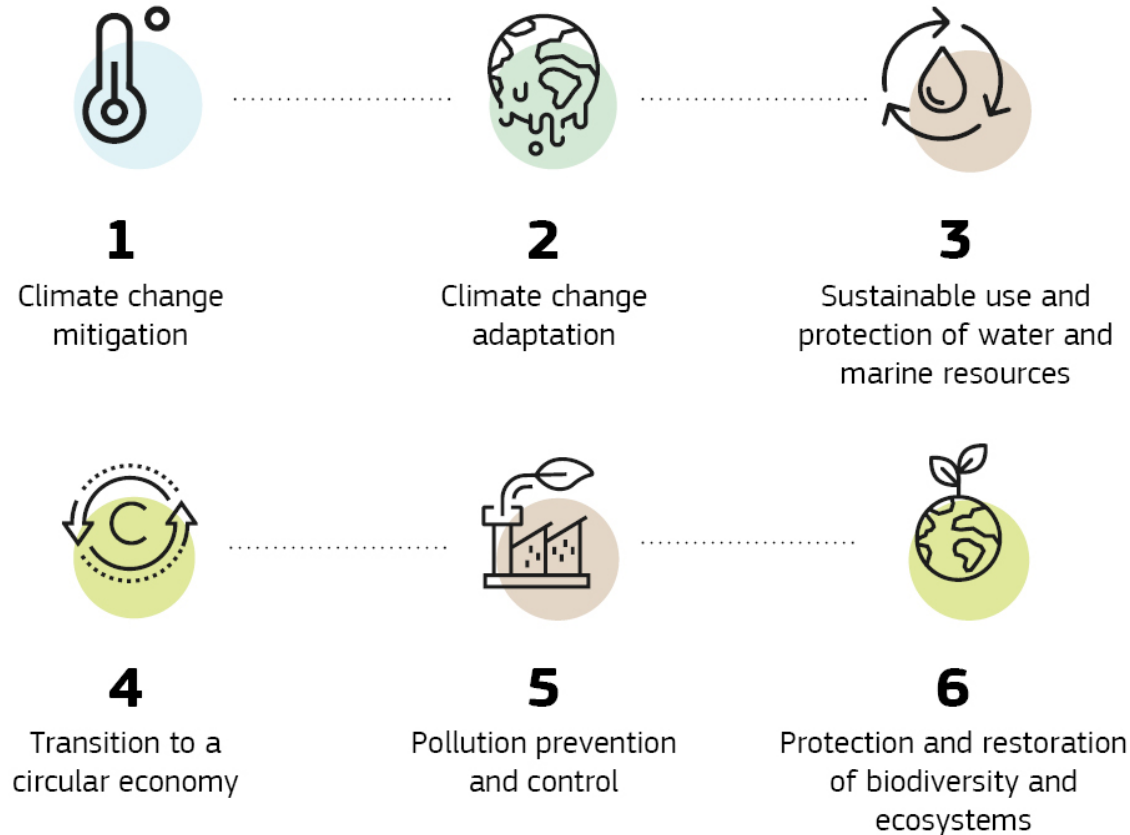


The foundations of the EU Sustainable Finance ecosystem



Sustainable Finance Taxonomy

EU Taxonomy environmental objectives



Sustainable Finance Taxonomy

THE DEFINITION OF “ENVIRONMENTALLY SUSTAINABLE” UNDER THE TAXONOMY

There are **four criteria** under the Taxonomy Regulation which an economic activity must meet in order to qualify as “environmentally sustainable⁴”:



EU Sustainable Finance Disclosure Regulation(SFDR) applies to all

« Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.»

Sustainable players fall either under:

Article 8 “promotion of environmental and social characteristic” or

Article 9 “sustainable investment as its objective”

Definitions

A **sustainability risk** is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment.

A **principal adverse impact** is a decision that result in negative effects on sustainability factors (environmental, social and employee issues, respect for human rights, anti-corruption issues).

A definition of a **sustainable investment** should provide that the investee companies follow good governance practices and the precautionary principle of “do no significant harm” to environment or society → future harmonization with the EU Taxonomy.



Comments on DN(S)H



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European
Commission

Deep dive into the IFIs sustainability frameworks

Policies, internal processes, E&S Management System and Standards

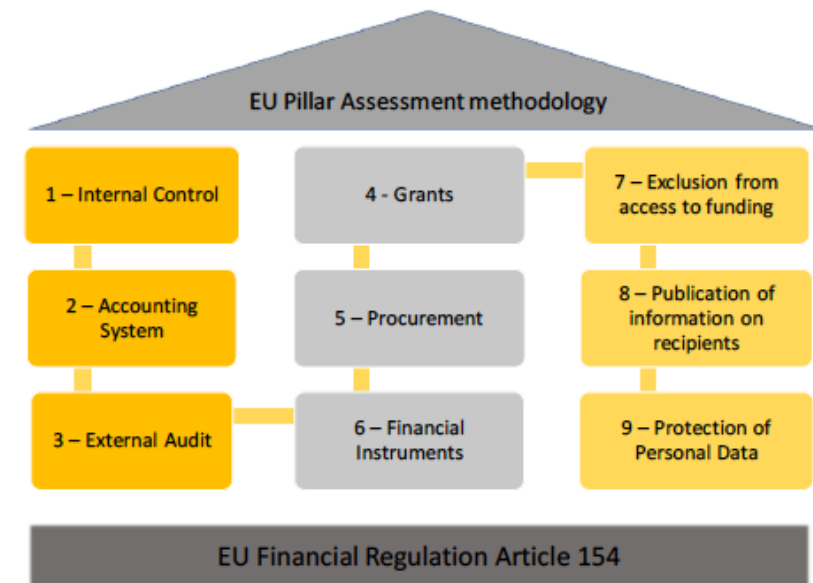


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Reflection and internal dialogue on pillar assessment within EC

- Mandatory Pillars - internal organisation of the Entity
- Optional Pillars - provision of funding to third parties
- Mandatory Pillars - triggered by optional pillars



Preliminary findings

First-level desk review

of Pillar-assessed financial institutions'

Environment, Biodiversity, Climate change and DRR positioning and practice



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Most FIs have a sustainability framework

- 92% of 47 FIs have E&S sustainability positioning
- 87% of them disclose it online
- Among the 47, 42 are MDBs, DBs or UN organisations and have a sustainability policy - 57% of them disclose their ESS
- The ESS are systematically a chapter of a framework
- Environmental Exclusion List often packed together with the ESS (24 cases among the 47)*
- 20 FIs (of the 47) disclose their ESS and complementary toolboxes, sectoral guidelines and implementation manuals
- 8 smaller FIs have a “positive impact” set-up (“do good” beyond DNH), only 2 disclose their ESS
- One FI is forest-focused and applies specialised and sectoral standards
- 2 FIs don’t mention it
- 2 other FIs refer to sustainability but don’t disclose any related document
- 5 other FIs refer to sustainability and have policies but do not disclose their standards
- 3 FIs focus on Europe and have a different ESG model





Are there reference ESS?

- IFC ESS used as reference of 36% of the ESS and often inspired tailored ESS architecture
- The larger the IFI, the more tailored are the ESS
- ESS often a resource in common (within a Group or among partnering peer institutions)

EIB's E&S standards



STANDARD 11: INTERMEDIATED FINANCE

Standard 11 Requirements and processes that financial intermediaries must have in place to assess, manage, monitor and report on the environmental, climate and social impacts and risks associated with the sub-projects it finances, as appropriate to the nature of intermediated financing.



HLEG



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High-Level Expert Group

on scaling up sustainable
finance in low- and
middle-income countries

Mandated by the European Commission



Final Recommendations

Executive Summary
April 2024



Background

- Overarching objective: aligning global financial flows with the SDGs (Article 2.1c of the Paris Agreement and similar articles of the GBF)
- 2021: EC will produce **LMICS-dedicated EU Sustainable Finance Strategy** by promoting sustainability-related financial instruments
- HLEG sustainable finance in LMICs launched
- GF reviewed the HLEG ToRs 2022 and Preliminary findings & Recommendations 2023
- Final report just released and will shape further trends in EFSD+ blending and guarantees

Source: https://international-partnerships.ec.europa.eu/scaling-sustainable-finance-low-and-middle-income-countries-high-level-expert-group_en#preliminary-findings--recommendations