



Greening EU Cooperation

Integrating Environment, Climate Change and Disaster Risk Reduction in EU External Action

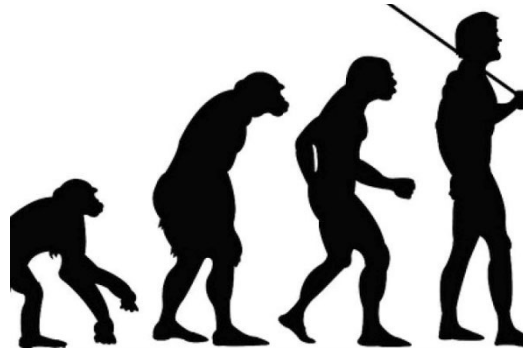
Session 16: Green financial instruments (a taster)

What are financial instruments?

Grants

Equity – private / listed

Debt – loans / bonds



Securities resulting from a mechanism:

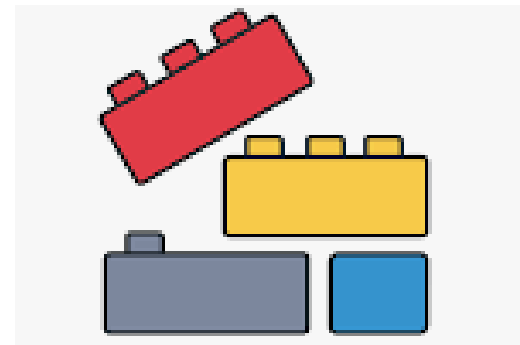
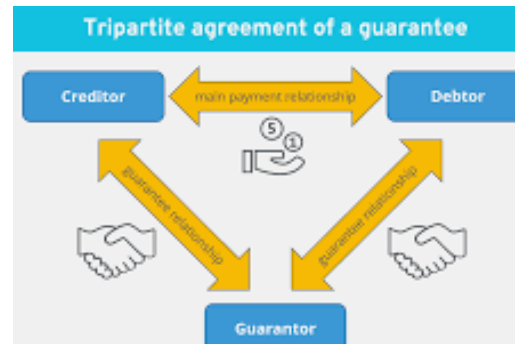
carbon credit, energy certificate, biodiversity credit

Risk management tool:

Guarantees

Insurance

Derivatives



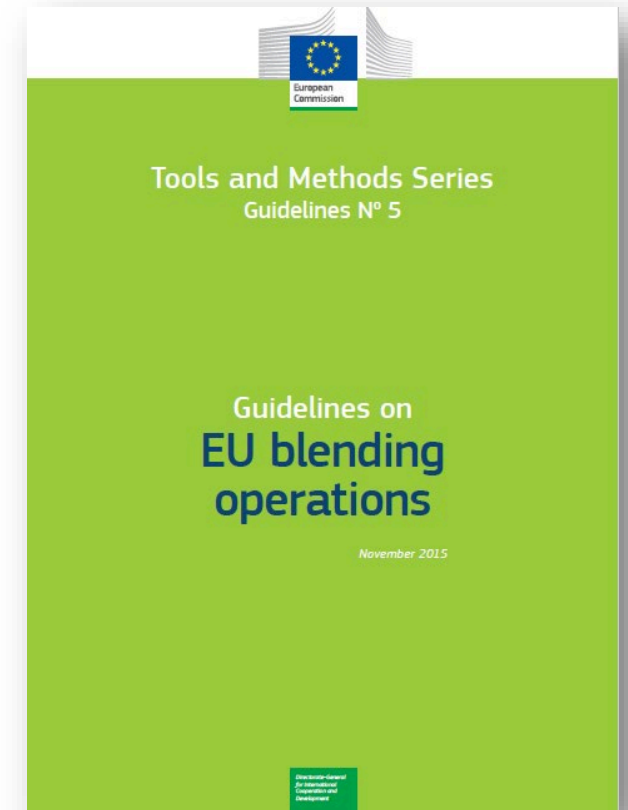
Vehicles:

Funds (registered legal structure using financial instruments)



How can we make financial instruments turn green?

- Insights & definitions from EU SFDR
- Sustainable Finance Disclosure Regulation Art 2(22)
- 2023 Guidelines on EU Blending Operations
- 2024 Greening EU Cooperation Guidelines



Definitions

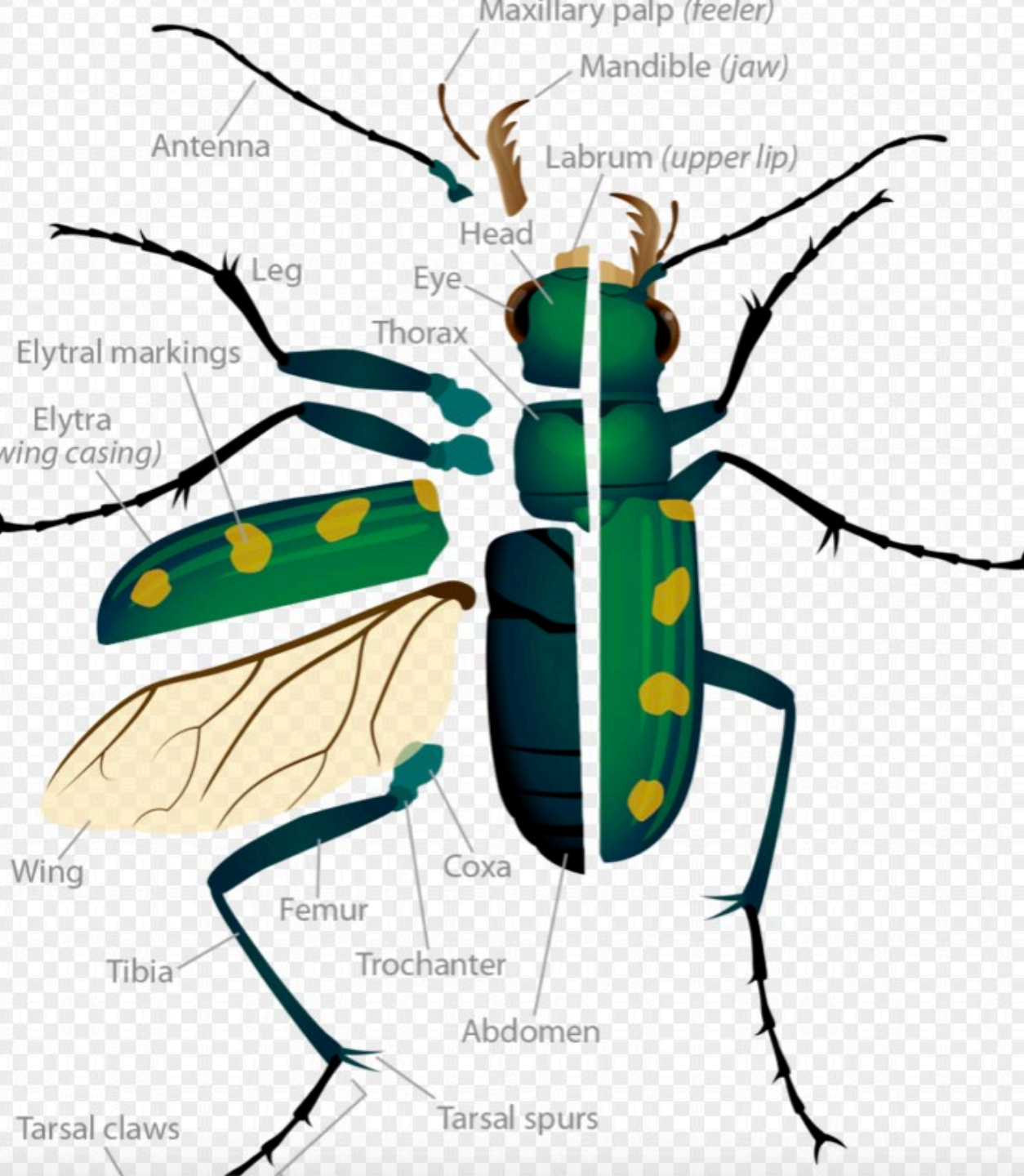
A **sustainability risk** is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment.

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.

How can we make financial instruments turn green ?





Anatomy of green financial instruments

Each financial instrument can turn green thanks to complementary governance practice at the level of the FI implementing it:

1/ Sustainability strategy or framework, policies, Theory of change, integration of sustainability into constitutional documents...

2/ Sustainability operational tools and practice: Environmental and Social Standards/Safeguards, Exclusion List, Positive Impact targets and KPIs, adapted monitoring, sectoral guidance, clear integration of sustainability into investment process steps (documents and committees)

Zoom-in on green bonds



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A Green Bond is ...

- ... a loan issued on the market by a company or public entity to investors to enable it to finance its projects contributing to the ecological transition
- *(renewable energies, energy efficiency, sustainable management of waste and water, sustainable use of land, clean transport and adaptation to climate change, etc.),*
- more particularly investments in infrastructure.
- It differs from a traditional bond by detailed reporting on the investments it finances, and the green nature of the projects financed.



MINISTÈRE DE LA TRANSITION ÉCOLOGIQUE

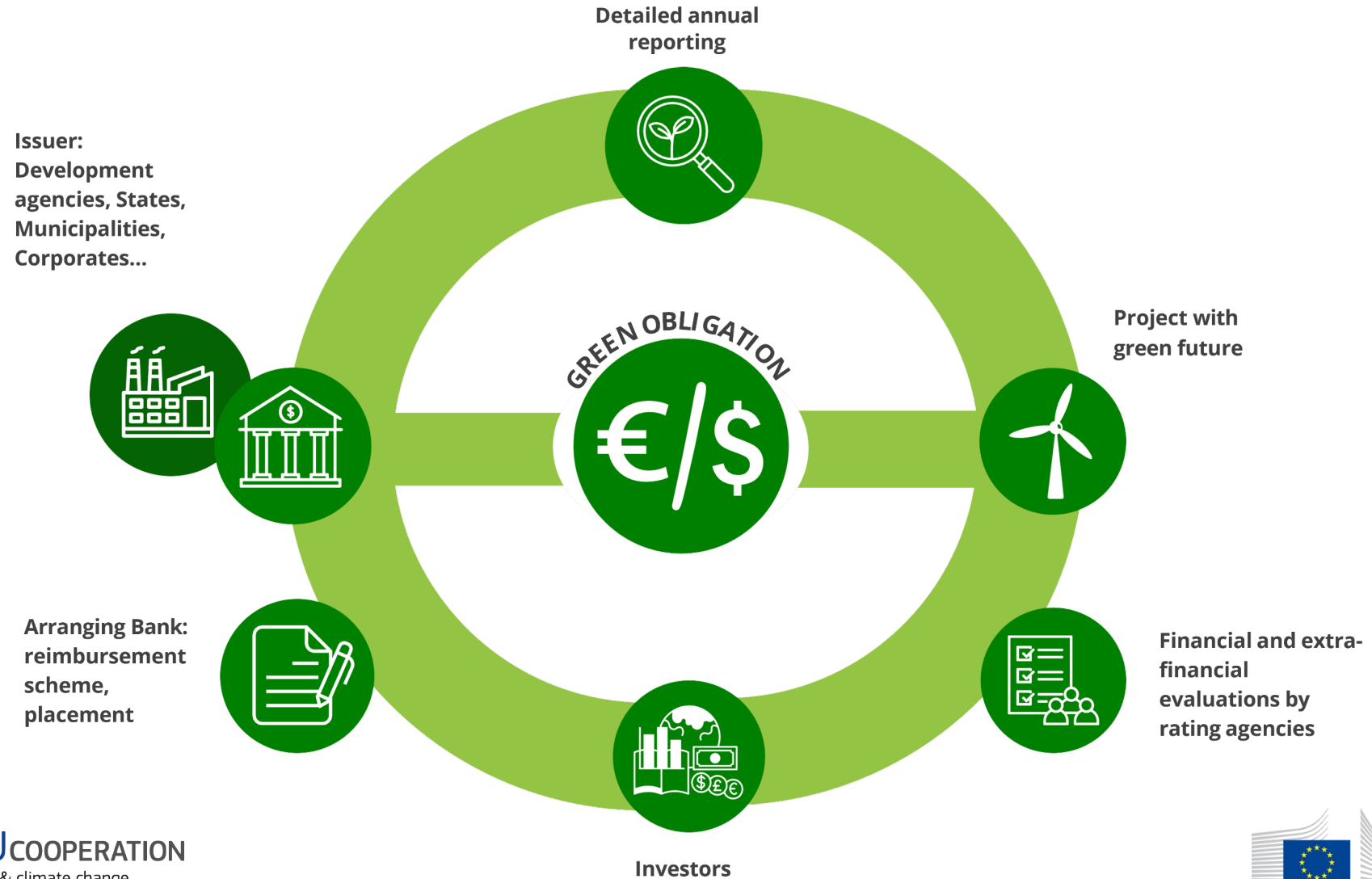
*Liberté
Égalité
Fraternité*



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Scan of a Green Bond



Green bonds are ...

- ... a type of fixed-income investment used to fund projects with a positive environmental impact
- Like traditional bonds, green bonds offer investors a stated return
- Additionally, they offer a promise to use the proceeds to finance or refinance sustainable projects, either in part or whole

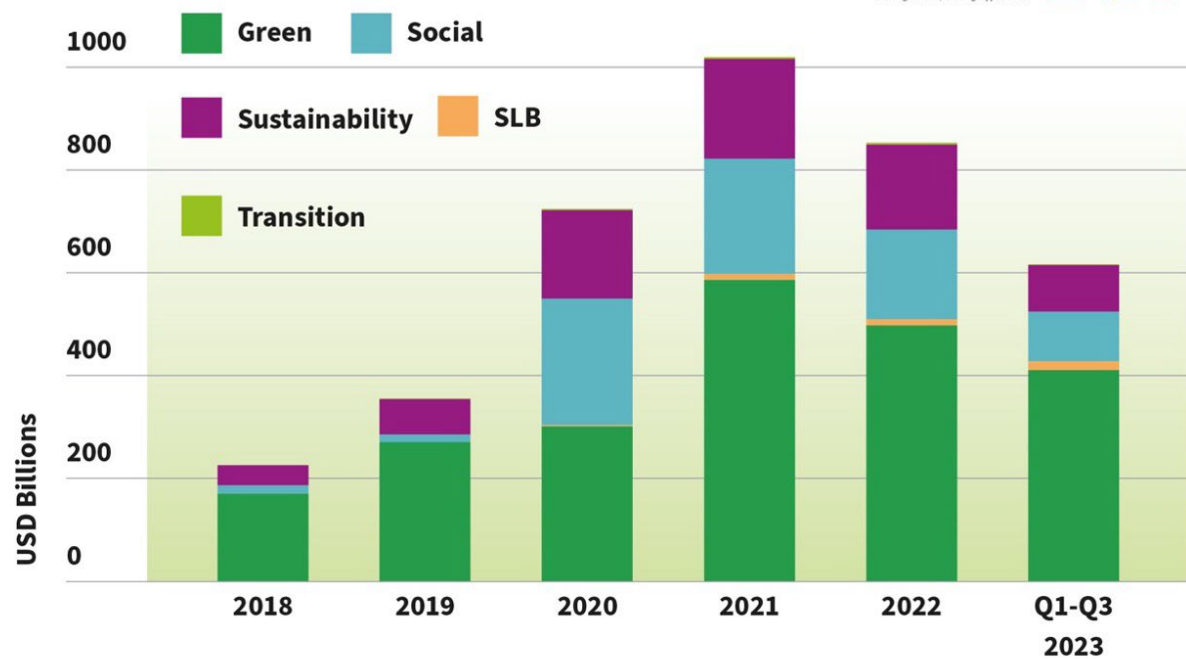
There is a large variety of green bonds

- Sustainable bonds,
- Blue bonds,
- Sustainability-linked Bonds,
- Climate bonds
- ...



Green Sustainable Social & more Bonds ... A mature market

Green bonds contributed 64%
to aligned volumes in 2023



© Climate Bonds Initiative, 2023



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Integrity of Green Bonds?

- **ICMA Green Bonds Principles**
- **Climate Bonds Initiative** voluntary standard
- 2023: EU« **European Green Bond Standard** » (voluntary), aligned on EU Taxonomy criteria, requiring a high level of transparency and review before and after the bond emission, by organisms supervised by the Authority of Capital Markets
- Many Stock Exchanges (where bonds are traded) propose guidance or regulation on Green bonds



Zoom-in on green funds



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What is a fund? An investment fund?



- A pool of money set aside for a specific purpose
- ...often invested and professionally managed
- Common types of funds include investment funds, pension or retirement funds, insurance funds, sovereign funds, emergency funds, trust funds, hedge funds, foundations, and endowments...even a fund of funds.
- A fund has a legal identity and is registered under a specific jurisdiction (most European funds are registered in Luxembourg)
- To a certain extent, a fund may be assimilated as a bank account with a registered legal identity + a mission + manual of procedures



Impact Funds



“Impact investing is an exciting and rapidly growing industry powered by investors who are determined to generate social and environmental impact as well as financial returns”

Financial returns may be identical or inferior to those of the commercial market

- Generic term referring to many investment practices, and a balance between financial objectives and local economic social impacts
- Funding comes generally from developed countries' parties, and investments may take place in developed or developing countries
- In Europe, this niche is made up of a multitude of scattered small investors (usually funds, but also NGOs, companies, now also large banks ...)



Source: Global Impact Investing Network www.thegiin.org



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Green for Growth Fund



- Impact investment fund that mitigates climate change and promotes sustainable economic growth, primarily by investing in measures that reduce energy consumption, resource use and CO₂ emissions
- Public-private partnership that leverages risk-capital provided by public institutions (EU NIP, KfW, EIB, IFC etc.) with additional private capital to substantially increase investment volumes to regions and sectors that do not normally attract such flows

WORKING WITH

64

PARTNER
INSTITUTIONS



**GREEN FOR
GROWTH FUND**

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

CUMULATIVE
INVESTMENTS

1.4

BILLION EURO

**SEE,
ENR East
& South**

ACTIVE IN

19

COUNTRIES



CO₂ REDUCTION

1,111,450
tCO₂/yr



ENERGY SAVINGS

4.28
Million MWh/yr



RENEWABLE ENERGY

1,168
MW



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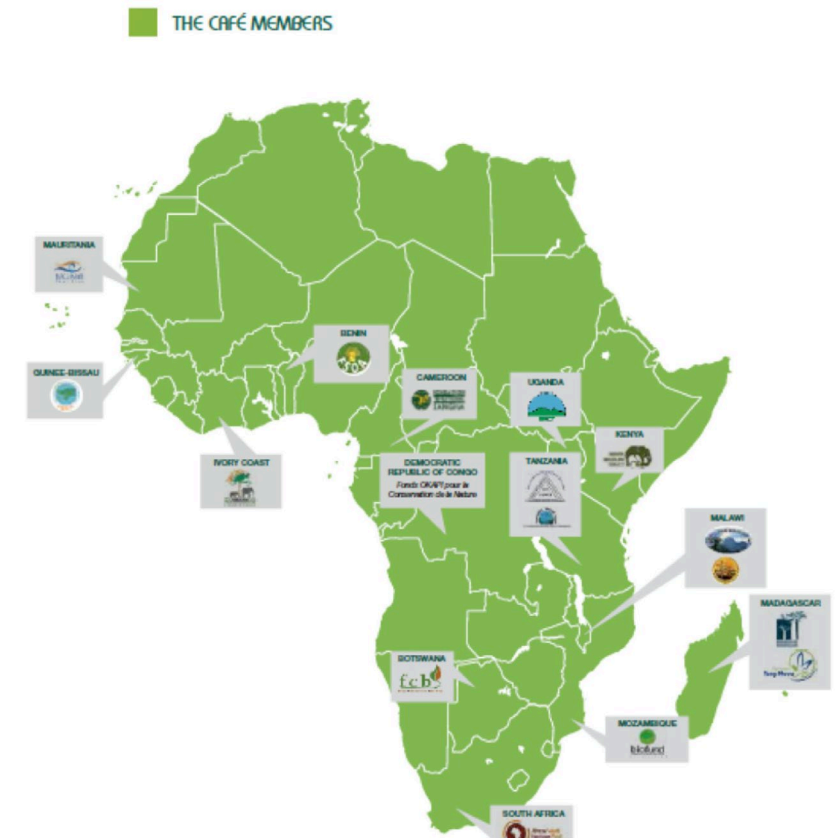


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Conservation Trust Funds

A trust or endowment fund is a financial vehicle that holds and administers assets for the benefit of a beneficiary. The initial assets are provided by donors and managed by a fund manager, who invests in financial markets in a way that preserves capital and distributes returns to the beneficiary. Investment activities are disconnected from the ultimate purpose of the fund.

Conservation Trust Funds are important tools for generating resources for the benefit of protected areas. Created at the end of the 90's with the aim of providing sustainable and regular funding flows.

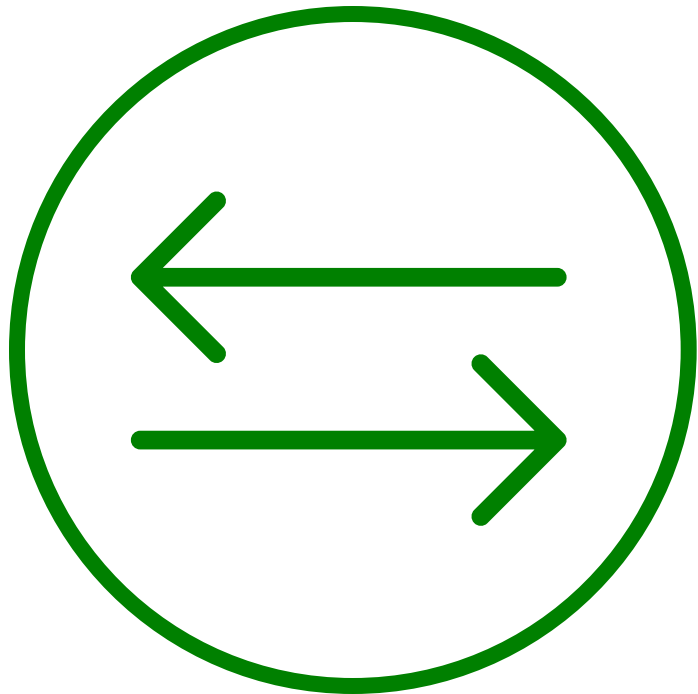


Zoom-in on Debt-for-Nature Swaps



Debt-for-Nature-Swaps:

a double solution for environmental and debt sustainability altogether?



Financial agreements between debtors and governments to:

- to reduce the debt burden of the State of a developing country
- against its commitment to spend part of this reduction to protect nature, ensure the conservation of a protected area, or increase resilience to climate change

