Redefining Climate Finance
Strategies to drive capital stock transformation
Overview

Introduction to the EBRD

The Problem

Strategies to drive transformation
What is the EBRD

Ownership

Multilateral financing institution established in 1991 to support transition to market economies

Owned by 67 countries, the EU and the EIB

Financials

€30 billion capital base
€41 billion portfolio
€9.5 billion average annual business in the past 3 years

Mandate

3 key operational principles:

Sound banking
Transition impact
Environmental sustainability
Green Economy Transition (GET)

40% Green finance in EBRD annual business by 2020, from a 2015 level of 30%

€ 4 billion Target annual EBRD green business by 2020

€ 29.6 billion Cumulative EBRD green business 2006-2018

1,600+ projects and credit lines

Reduced 97.4 million tonnes of CO₂/ year

Financed
EBRD Green Business Model

- EBRD direct finance: loans, equity investments or guarantees
- Mobilising additional commercial sources
- Indirectly via local partner financial institutions: lending, leasing
- Working with governments on optimum legislation for green investments
- Supporting the development of legal instruments and best practice guidelines

- Resource efficiency audits
- Climate vulnerability assessment
- Capacity building for local financial institutions (staff training, marketing, green retail lending products)
- Project structuring support (e.g. tendering, monitoring)
- Support to adopt operational or CSR-type standards (energy management, buildings certification, reporting)
## EBRD Product Flexibility: tailored to project needs

<table>
<thead>
<tr>
<th></th>
<th>Debt</th>
<th>Equity</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Typical size</strong></td>
<td>~ €5 - 150 mln</td>
<td>&gt; €5-7 mln</td>
<td>€50 k - €50 mln</td>
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<td><strong>Typical term</strong></td>
<td>5 - 15 years</td>
<td>3-7 years</td>
<td>Up to 3 years</td>
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<tr>
<td><strong>Currency</strong></td>
<td></td>
<td>Major foreign currencies as well as local currency</td>
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<tr>
<td><strong>Structures</strong></td>
<td>• Senior, subordinated or convertible&lt;br&gt;• Project finance&lt;br&gt;• Floating or fixed rates</td>
<td>• Portage equity finance&lt;br&gt;• Risk equity</td>
<td>• Import/export operations&lt;br&gt;• Pure guarantees, cash advance trade finance</td>
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<tr>
<td><strong>Applications</strong></td>
<td>• Greenfield/Brownfield, JVs&lt;br&gt;• Capex for expansion/modernisation, including resource efficiency improvements&lt;br&gt;• Ownership change: acquisition, consolidation, privatisation&lt;br&gt;• PPPs, etc.</td>
<td></td>
<td>• Issues to international banks&lt;br&gt;• Takes the risk of transactions of the banks in the EBRD’s countries of operations</td>
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| 79% private         | 21% public    |
Climate change is the challenge of our time and will seriously undermine all other SDGs if there is no longer a climate for sustainable livelihoods and only a constant state of crises.

Climate risks: far-reaching, in most cases foreseeable. For action today.

2 April, 2019
The Great Acceleration: Drivers and Trends

- Between 1968 - 2018 population increased by 3.5 billion
- 1.5 million people move to cities every week
- In 2012 the number of cell phones surpassed the number of people on the planet
- Each year we produce 480 billion plastic bottles
The Great Acceleration: Earth System Trends

- Global temperature increased from 14°C in 1968 to 14.6 °C in 2013
- Mammals, birds, reptiles, amphibians and fish declined by 50%
- Sea levels have risen by 10cm
- By 2050 plastic in the oceans will outweigh fish
- The level of inequality in Europe in 2015 reached the highest in 200 years

Steffen et al., 2015
Global challenges

Uncertain and rapidly evolving markets
- Demographic and consumer behaviour changes
- Digitalisation
- Risk of new disruptive entrants in the market (e.g., Amazon in retail)

Increased regulatory pressure
- Changing regulatory context (extended producer responsibility on packaging, carbon taxation, nutritional product labelling, public health/obesity, ...)
- Most commodities maintained artificially cheap by subsidizing fossil fuels and non-competitive and unsustainable production practices

.....business as usual is dead
Greening the Capital Stock

Mapping of the Electricity Sector in Selected Countries According to the Emissions From Existing Capital Stock and Their Demand for New Capital Stock

From: Rocky Mountain Institute
Capital Stock Transformation

Low emissions from existing capital stock and high demand for new capital stock provide an opportunity to leapfrog traditional carbon-intensive infrastructure.

Critical levers:
- Scale up clean flows
- Manage dirty flows

Critical stakeholders:
Development finance institutions, philanthropic/impact investors, private investors

High emissions from existing capital stock and high demand for new capital stock require reducing risk of future carbon lock-in.

Critical levers:
- Scale up clean flows
- Increase efficiency of capital stock

Critical stakeholders:
Private investors, debt providers

Low emissions from existing dirty capital stock and low demand for new capital stock require a focus on improving capital stock efficiency.

Critical lever:
- Increase efficiency of capital stock

Critical stakeholders:
Current asset owners, end users

High emissions from existing dirty capital stock and low demand for new capital stock require retirement of dirty assets.

Critical lever:
- Accelerate retirement of dirty stock

Critical stakeholders:
Current (public and private) asset owners

From: Rocky Mountain Institute
Core Elements of Recommended Climate-Related Financial Disclosures

**Governance**
The organization's governance around climate-related risks and opportunities

**Strategy**
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

**Risk Management**
The processes used by the organization to identify, assess, and manage climate-related risks

**Metrics and Targets**
The metrics and targets used to assess and manage relevant climate-related risks and opportunities
The lines between aligned and climate finance may be blurred/changed over time, but this is not so relevant in the context of PA alignment discussions. What is important is the “brown” and “yellow/orange.”
Paris Agreement Alignment: the j-MDBs approach

Six building blocks and principles jointly agreed by the MDBs as core areas for aligning with the Paris Agreement:

1. Alignment with mitigation goals
2. Adaptation and climate-resilient operations
3. Accelerated contribution to the transition through climate finance
4. Engagement and policy development support
5. Reporting
6. Align internal activities
The value of partnerships: Low-carbon Roadmaps

Objective
Identify specific, realistic investments and measures for high-carbon sectors to pursue the reduction of projected carbon emissions

Guides Actions
Identifies specific solutions to address sector’s climate impacts

Helps in Planning
Outlines a timeline for implementing these actions and where the industry may be going

Mobilises Resources
Indicates potential sources of finance to implement the roadmap’s vision
Example: Low-Carbon Roadmap for the Egyptian Cement Industry

Defining and implementing a low-carbon pathway for the cement sector in Egypt

Identify specific, realistic investments and measures for the sector to pursue to reduce its projected carbon emissions to 2030:

• Partnered with the WBCSD’s Cement Sustainability Initiative, local organisations representing the cement industry, and ministries
• Outlined both ‘slow’ and ‘rapid’ low-carbon scenarios, achieved through both mitigation and policy actions

• Process involved:
  Stakeholder consultations
  Data & interviews w/ companies
  Political & economic gap analysis
  Cement asset comparison to global best practice
  Impact assessment of technological options
  Preparation of low-carbon technology/fuel scenarios
Example: Fertilizer Industry

Use IEA’s Technology Roadmap as the template for developing a low-carbon pathway for the global nitrogen fertilizers industry to 2050 with a focus solely on urea.

Focus on actions that would align the industry with the Paris Agreement.

Collaboration between the IFA, IEA and the EBRD.

Objective to put in the industry in the position to benefit from green finance.
Conclusions

Business as usual is dead

Imperative to accelerate the greening of the capital stock

Strategies:

• Transparency
• Partnerships
• Paris Alignment
Contacts

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