

SETTING THE SCENE: GREEN AND SUSTAINABLE FINANCE IN THE MEDITERRANEAN REGION

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A C A D E M Y

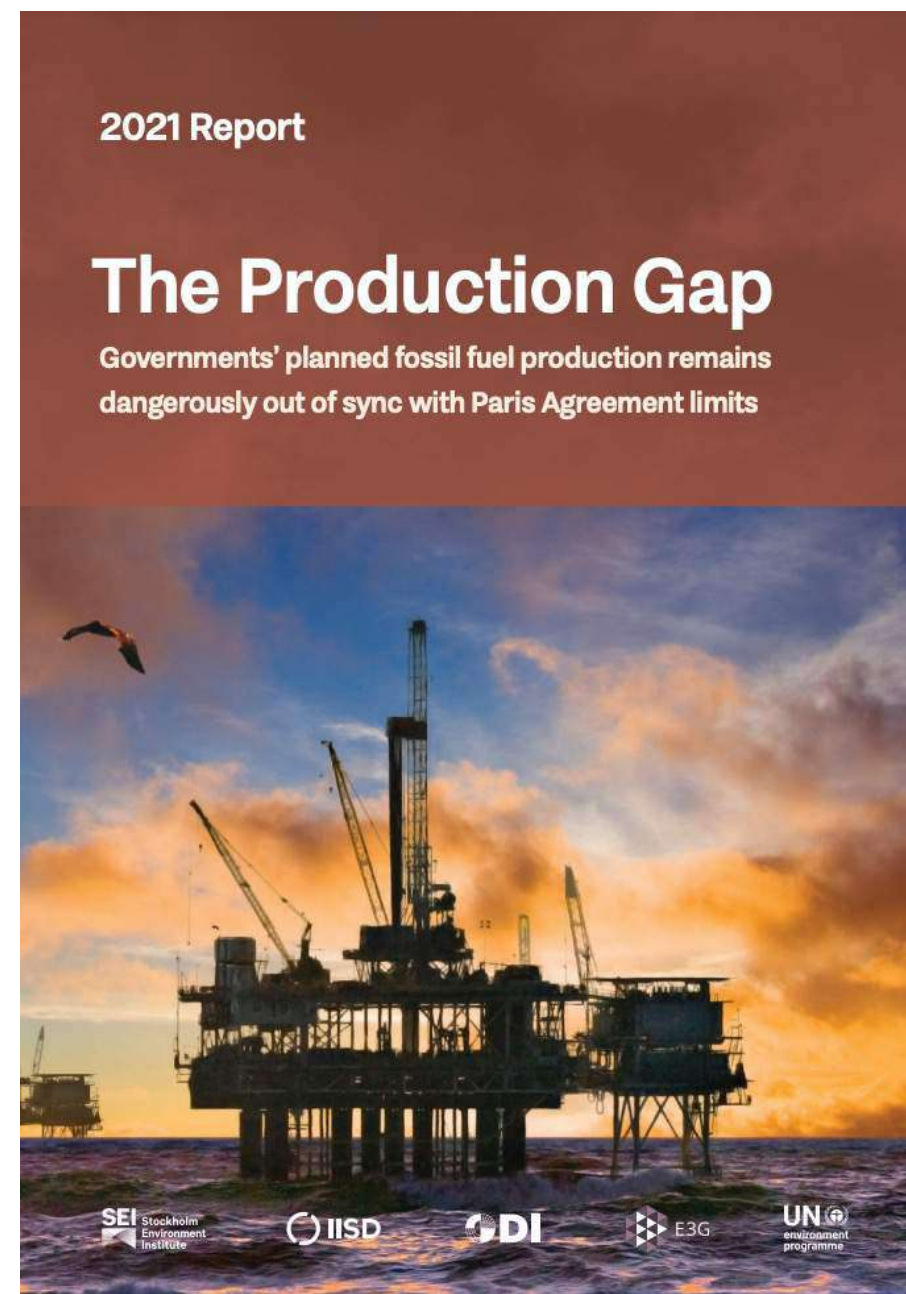


Context & Motivation:

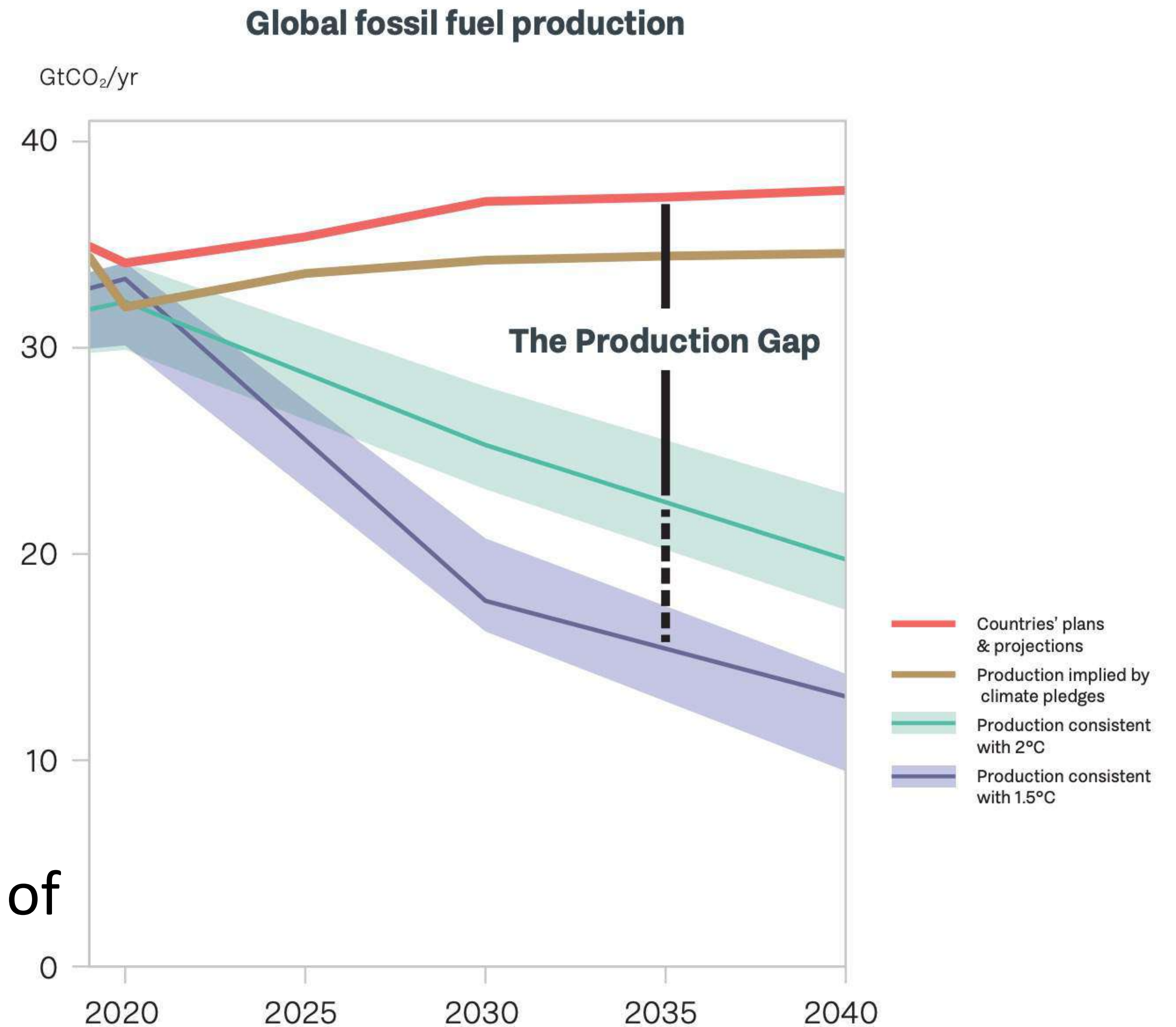
Why should we focus on green finance?



Context & Motivation



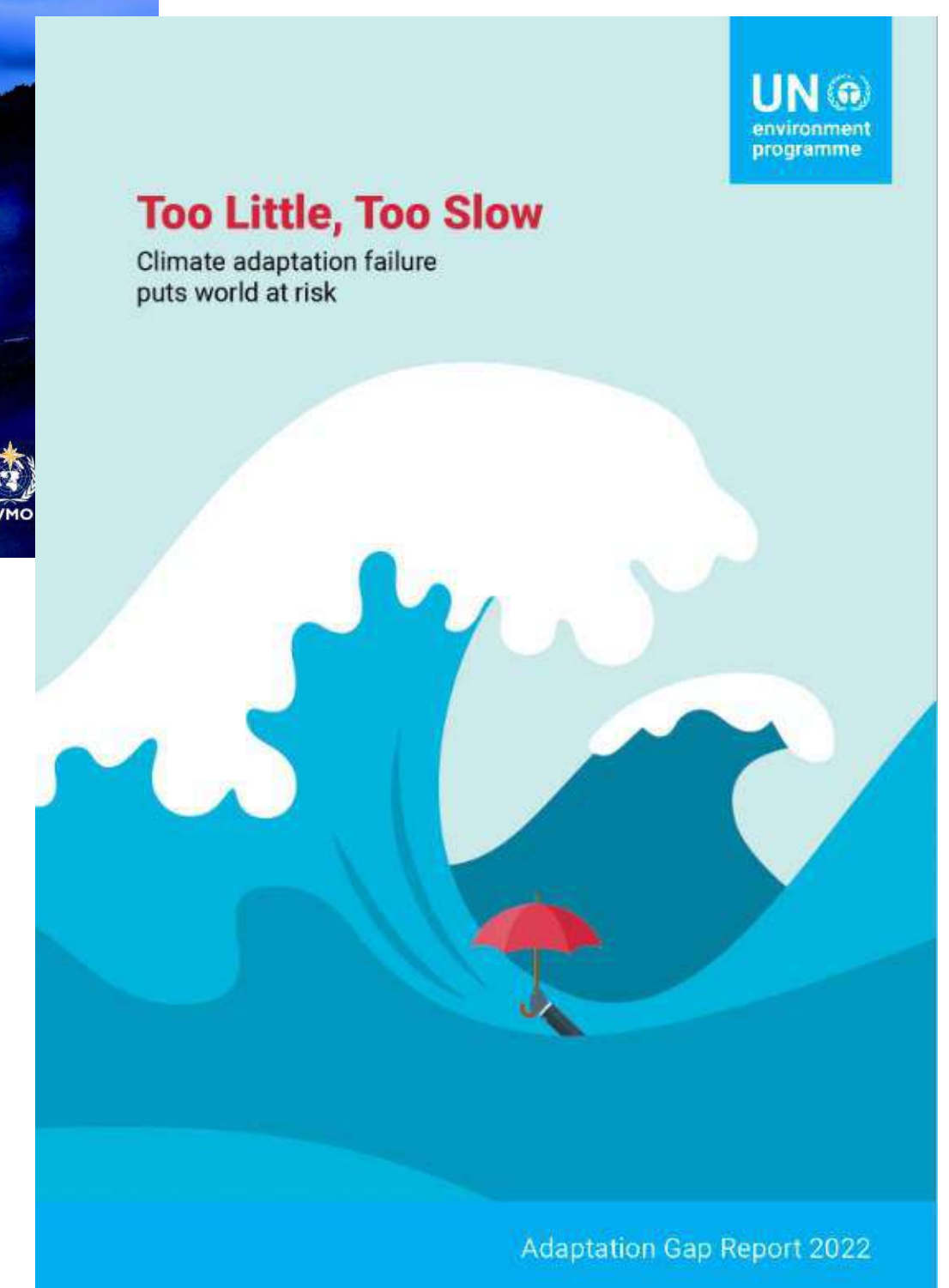
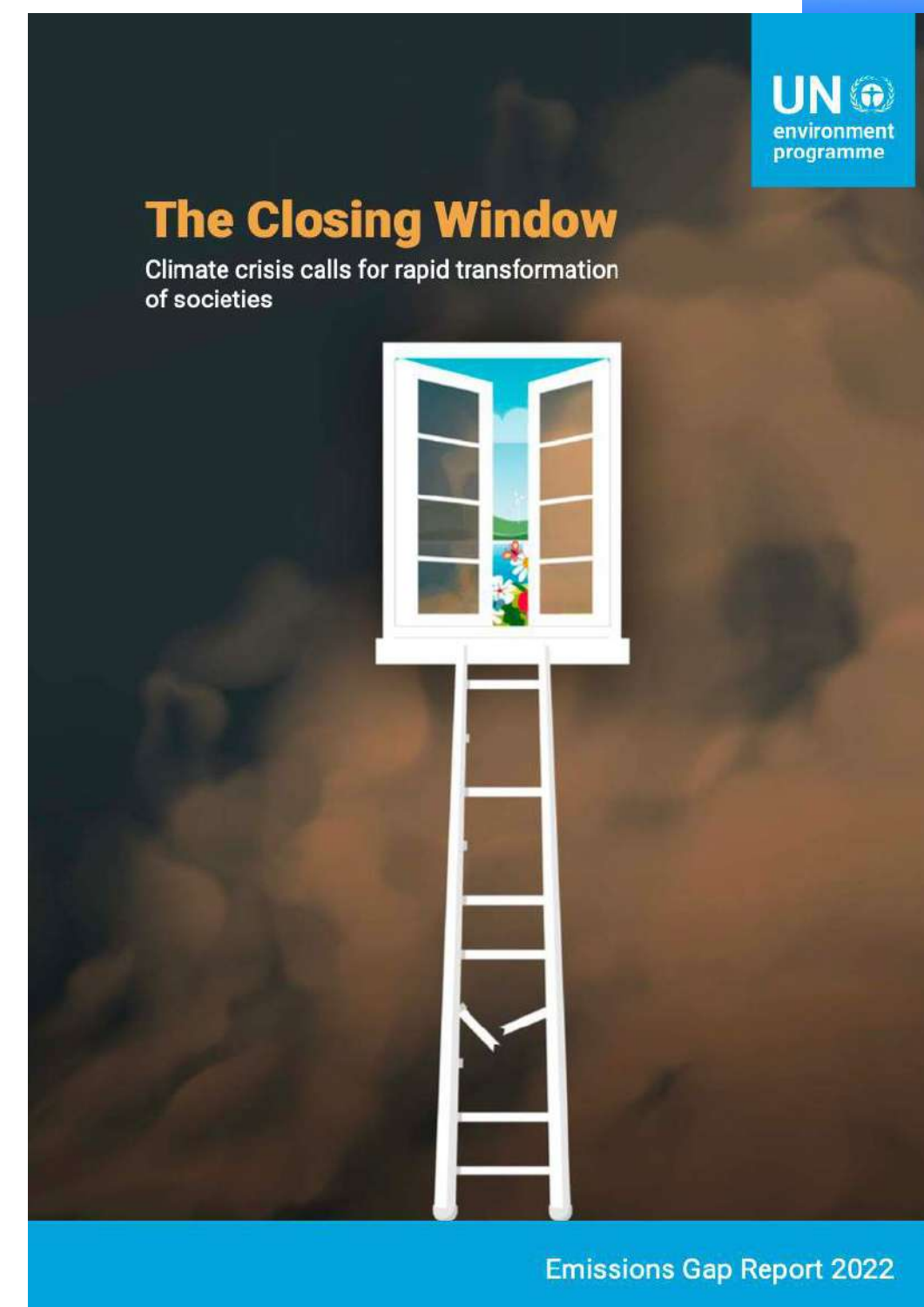
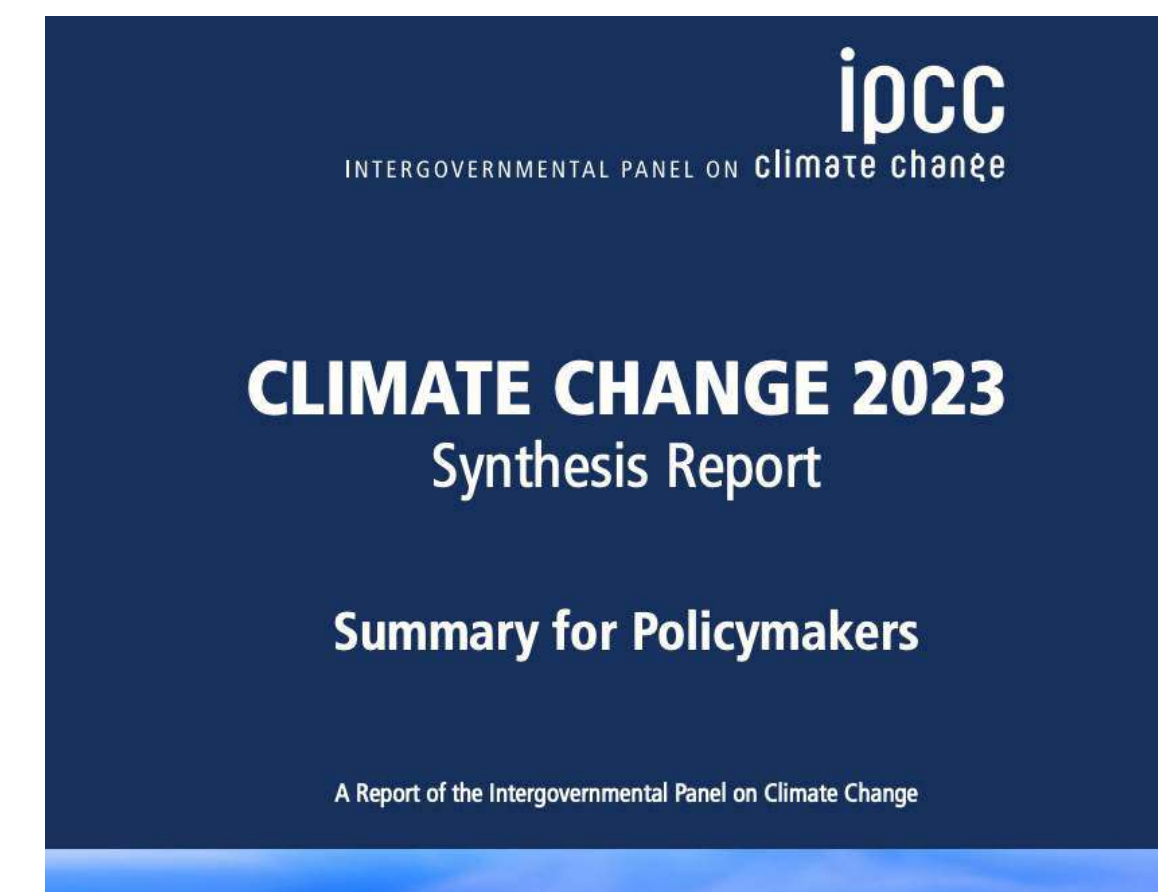
« Governments' planned fossil fuel production remains dangerously out of sync with Paris Agreement limits »



https://productiongap.org/wp-content/uploads/2021/11/PGR2021_web_rev.pdf

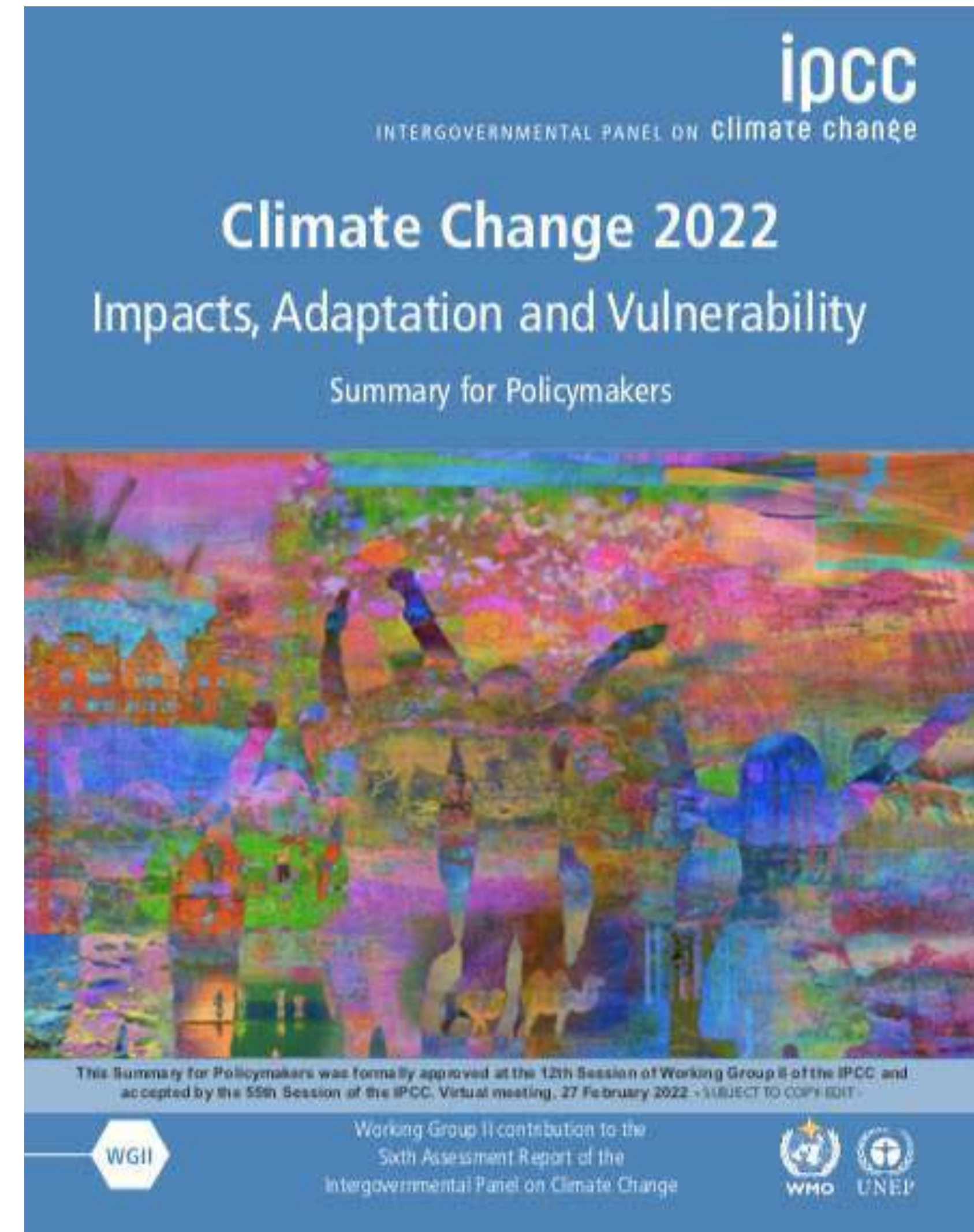
Context & Motivation

- “Climate crisis calls for rapid transformation of societies”
- Too little is being done

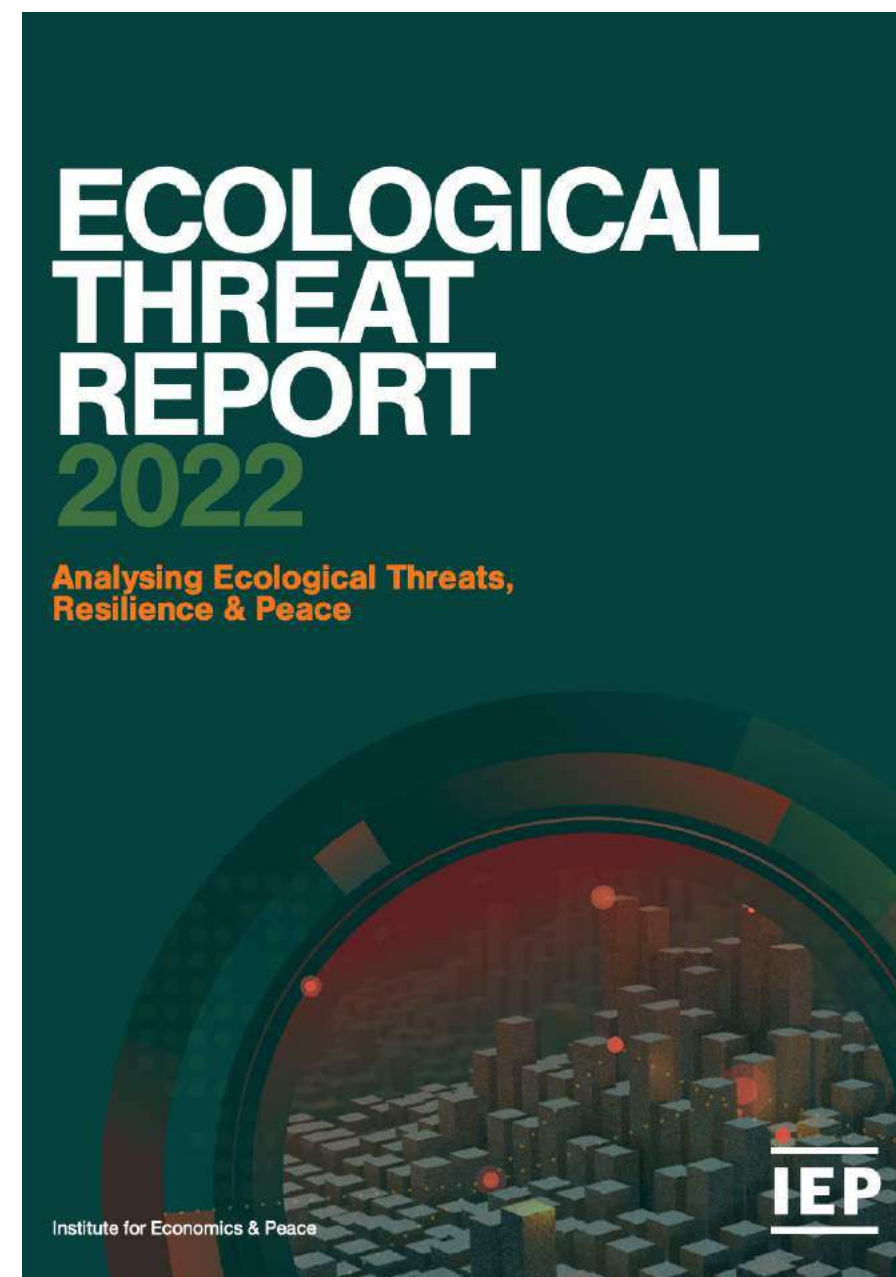


Context & Motivation

- More frequent and intense extreme events, widespread adverse impacts and related losses and damages to nature and people
- Global warming, reaching 1.5°C in the near-term, would cause unavoidable increases in multiple climate hazards and present multiple risks to ecosystems and humans
- Complex, Compound and Cascading Risks
- If global warming transiently exceeds 1.5°C in the coming decades or later (overshoot), then many human and natural systems will face additional severe risks, compared to remaining below 1.5°C (high confidence)
- Disproportionate impact on poor and vulnerable population

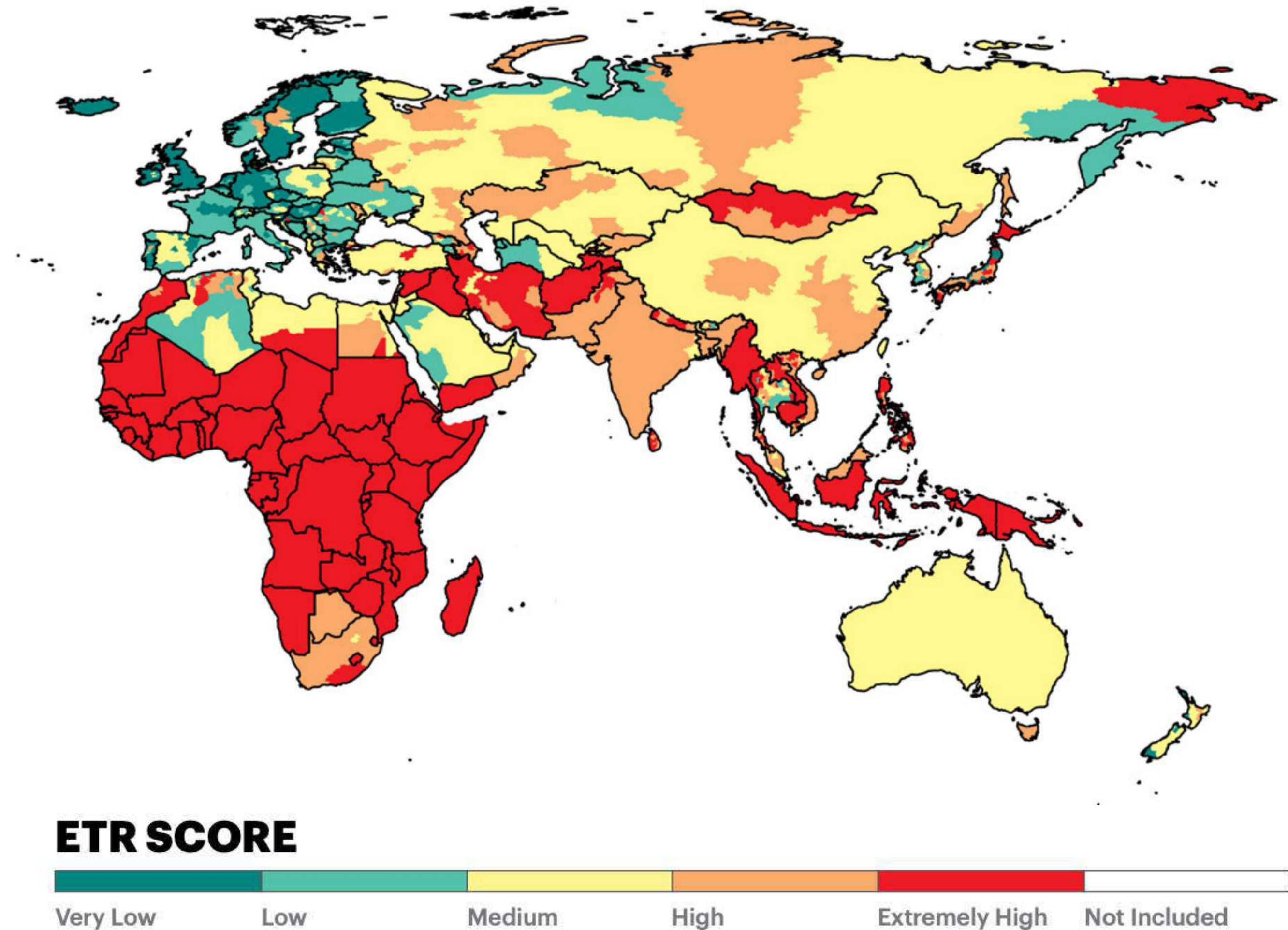


Context & Motivation



Areas tackled:

- Food security
- Water security
- Natural disasters
- Disasters and conflict displacement



**Coming to climate change and protection of our planet:
All countries, all sectors, everyone needs to act!**



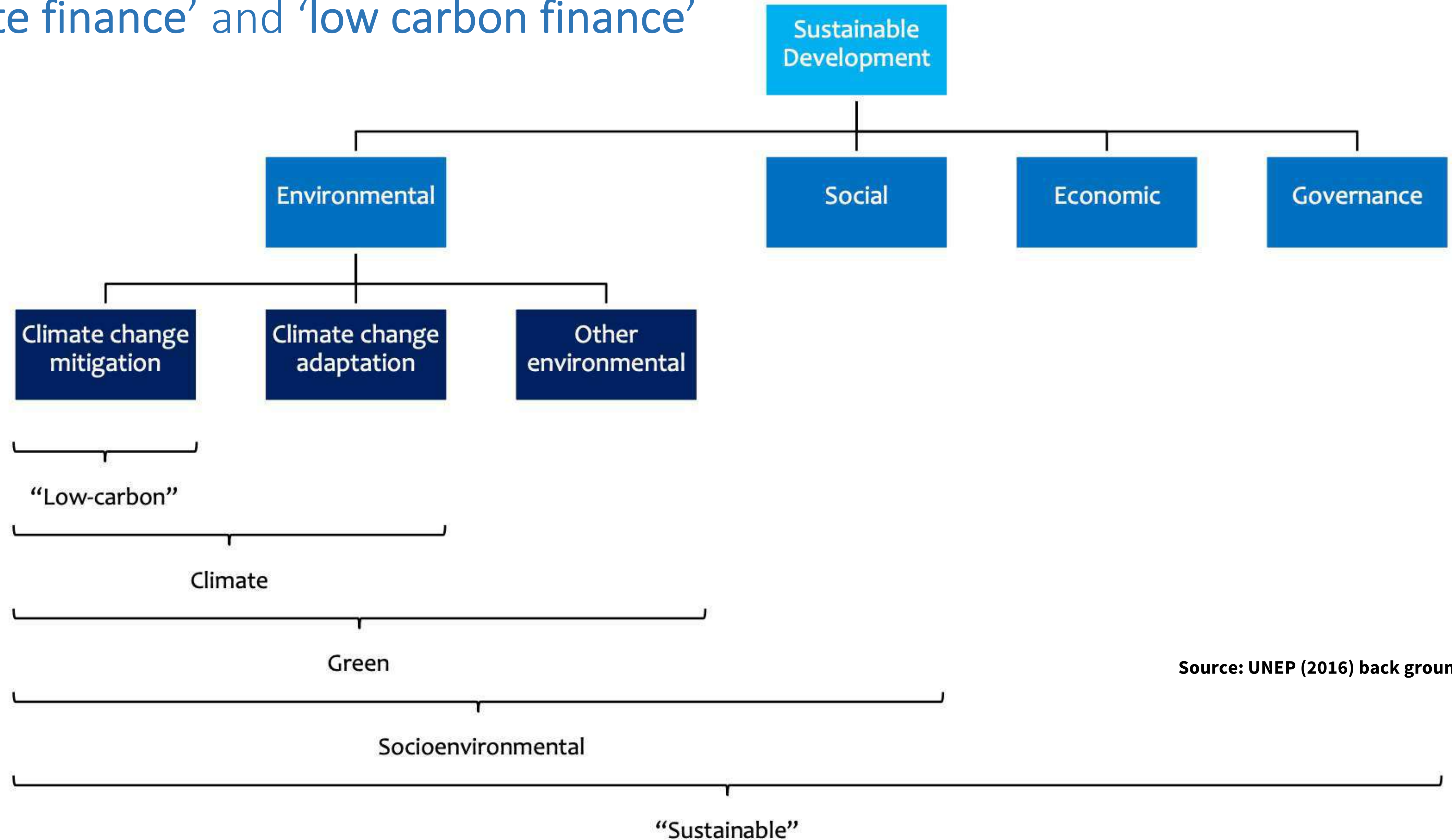
Green finance



Definition of green finance

- What is green finance?
- No precise and established definition for green finance up to now!
- **UN Environment Program:** Green financing is to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities
- **People's Bank of China:** “Green finance policy refers to a series of policy and institutional arrangements to attract private capital investments into green industries such as environmental protection, energy conservation and clean energy through financial services including lending, private equity funds, bonds, shares and insurance”
- **Government of Germany:** “Green Finance is a strategic approach to incorporate the financial sector in the transformation process towards low-carbon and resource-efficient economies, and in the context of adaptation to climate change.”

Distinction between 'green finance', 'sustainable finance', 'climate finance' and 'low carbon finance'



Source: UNEP (2016) back ground note

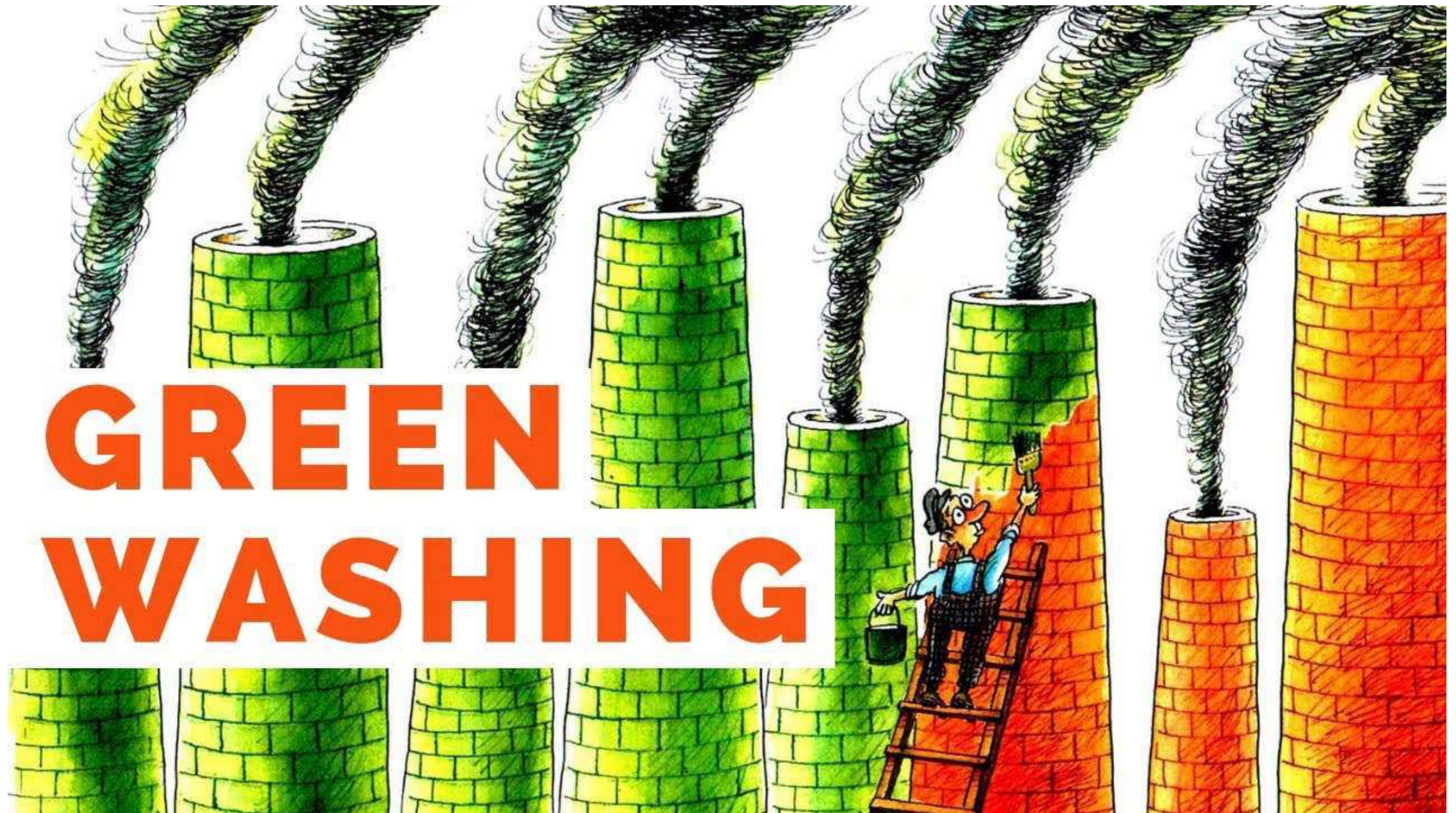
Main challenges for green finance?

- Challenges within the Green projects:
 - New in the market
 - Lack of information
 - Technology risk
 - Uncertainty associated with it
 - Sometimes long term investment is required
- Lack of consistency in the definition of green
- Measuring and assessing green finance (EU taxonomy but ...)
- Lack of policy and regulatory guidance
- Green washing





- Introduction of dedicated products for sustainable projects are challenging: classification and reporting which are necessary in order to prevent green-washing (EU taxonomy)
- Balance between ensuring that only genuinely sustainable projects benefit from favorable conditions while not rendering the program unattractive due to the bureaucratic burden that comes with it
- In addition to a lack of policy and regulatory guidance

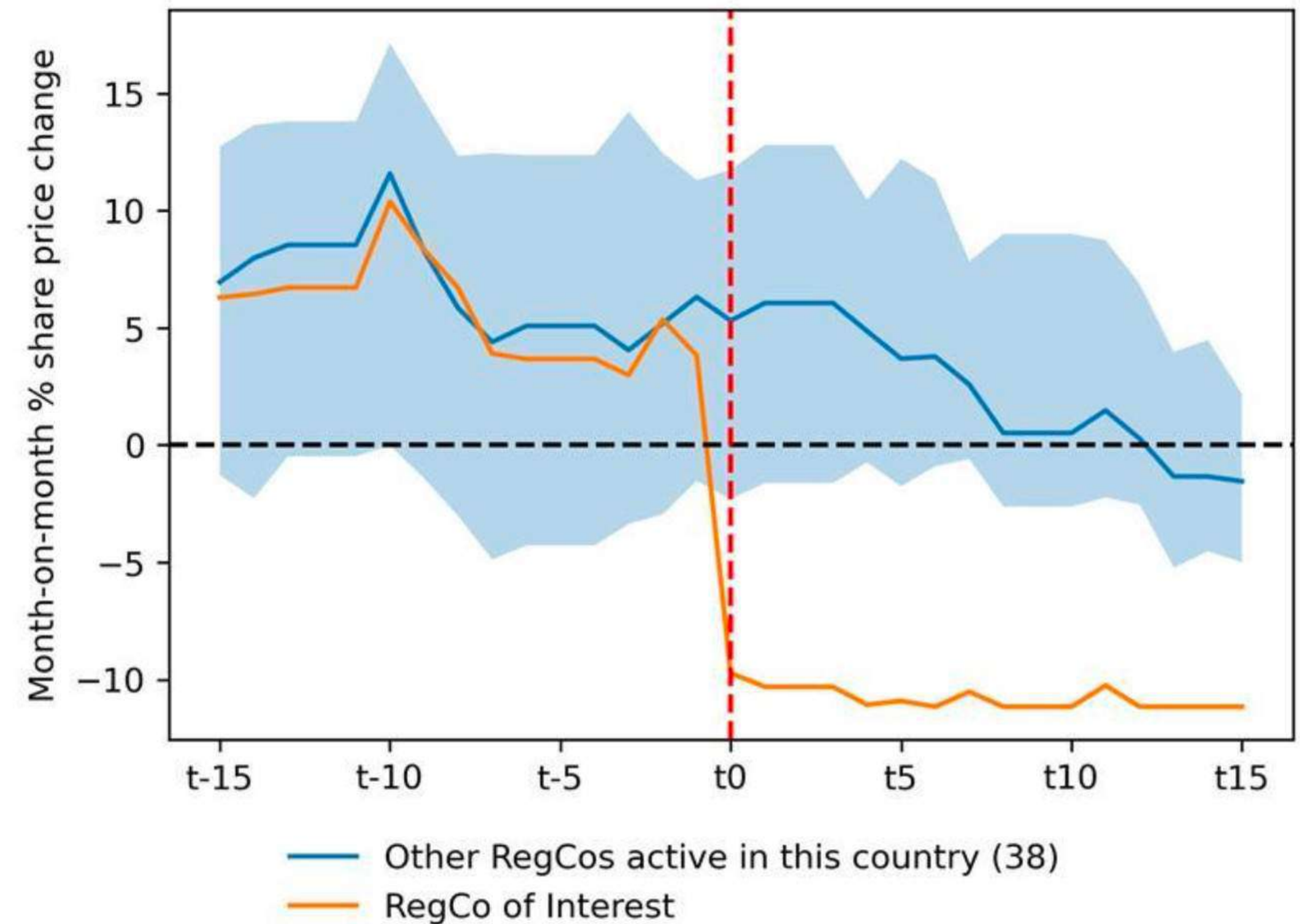


By: Danielle Labrum

Green washing

- Greenwashing can generate reputational and financial risks → needs to be regulated

FIGURE 1. INVESTORS' REACTIONS TO AN ALLEGED GREENWASHING CASE



Note: Monthly change in share prices, %.
Sources: Refinitiv, ESMA.

Source : EBA (2023)

Green washing

- The EU has taken steps to address and tackle greenwashing...
- Definition of green washing

European Supervisory Authorities -ESA (2023): practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.

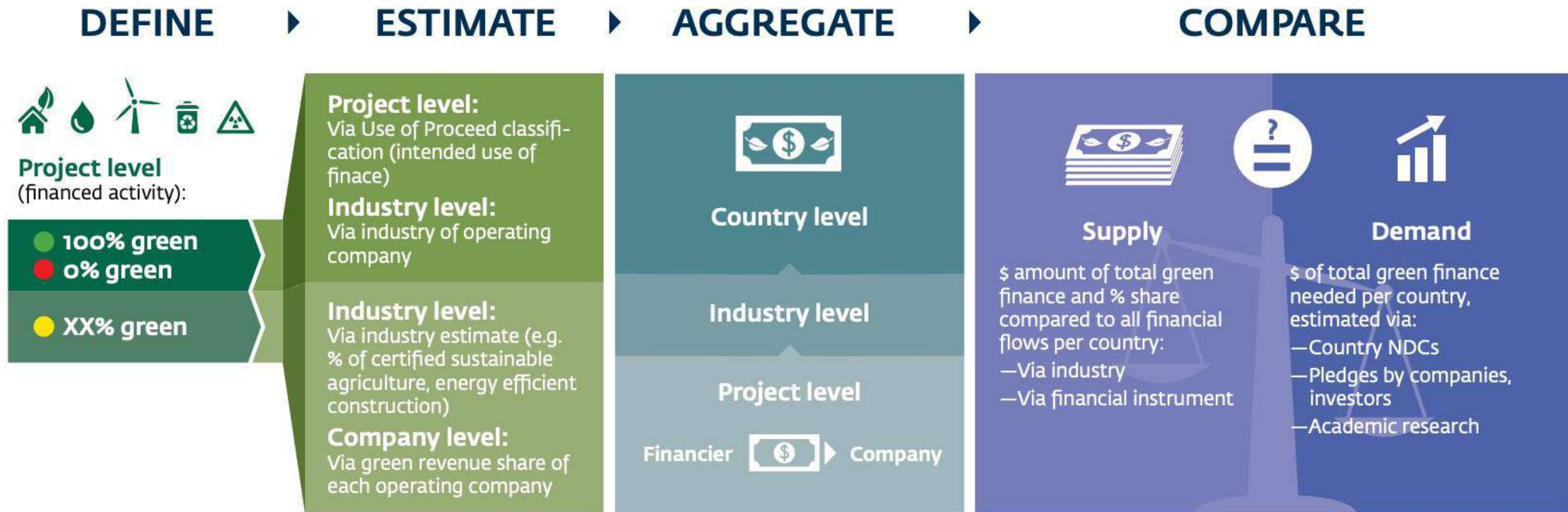
Source : EBA (2023)

FIGURE 3. THE MULTIPLE DRIVERS OF GREENWASHING RISKS

Source: <https://www.esma.europa.eu/document/progress-report-greenwashing>

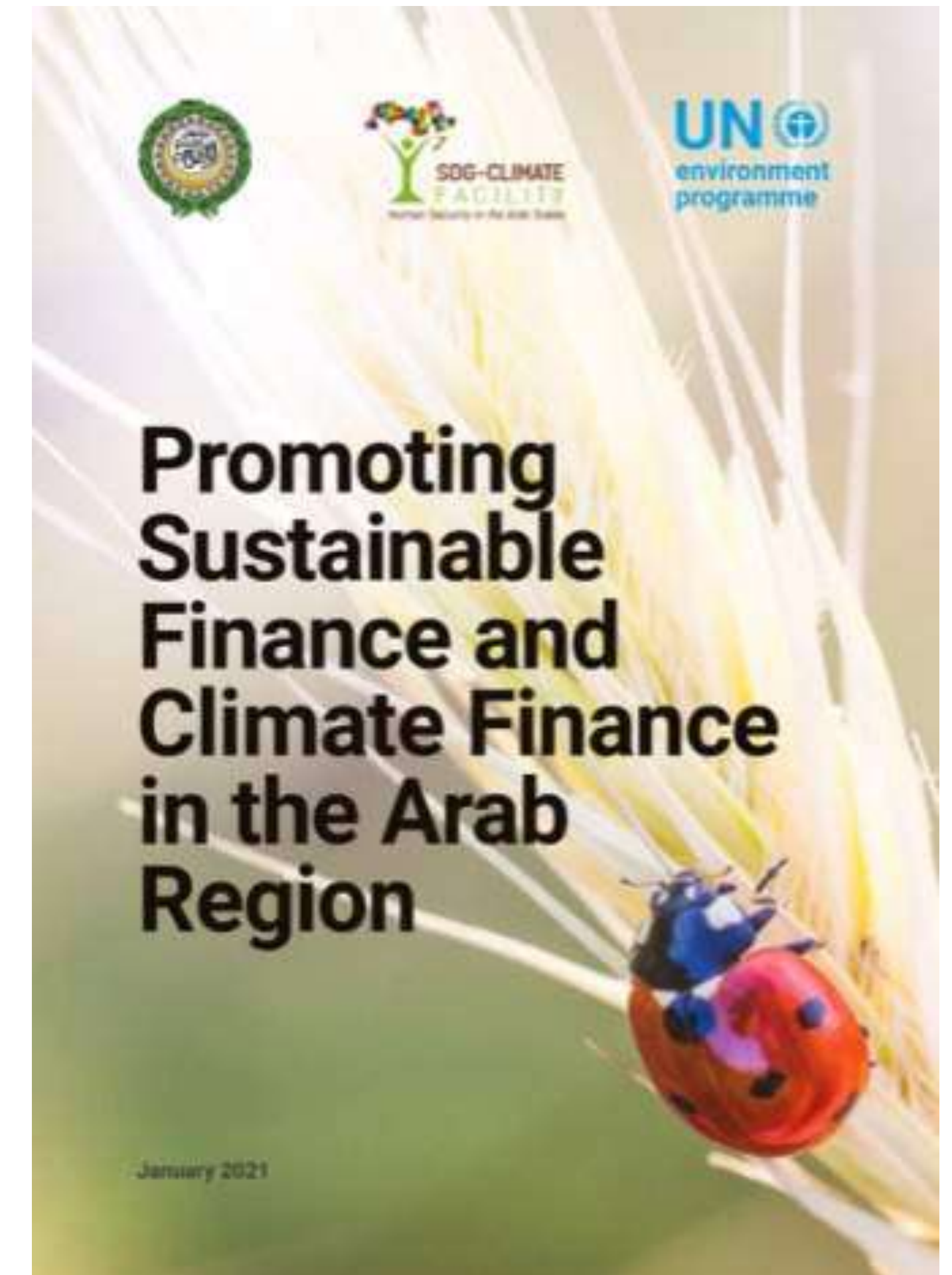
Reporting: How to measure green finance?

- One way to do it: A Bottom-up Approach to Track Existing Flows



Green finance perspective in the Mediterranean region

- The **UAE** leads sustainable finance practices in the region
- **Morocco** is at an advanced stage
- **Egypt** is preparing to develop its national sustainable finance framework.
- **Jordan** and Bahrain have committed to aligning their financial systems to finance their sustainable development agenda.
- **Saudi Arabia's** national policy framework has been driven mainly by economic diversification reforms to reduce their oil dependence and increase the contribution of their non-oil sectors to GDP, while also increasing private sector participation.



Green guarantees



What about “green guarantees”

- **The need for them is somewhat obvious, right?**

Share your opinion...

What about “green guarantees”

•The need for them is somewhat obvious, right?

- Nature of green investment and risk associated with it
- Regulatory restrictions and the portfolio obligations for green asset
- ESG factors
- Supporting green transition through financial inclusion
- Interest of doners

...

Your role as providers of “green guarantees”

Credit guarantee schemes → help to bridge the initial phase of uncertainty of MSME financing of green projects by:

- ✓ Improving the bankability of transactions, where collateral is poor
- ✓ Encouraging lenders to provide financing to target groups by sharing credit risk
- ✓ Creating market learning opportunities for green business and technologies
- ✓ Improving the ability of lenders to price risk for MSMEs and green projects
- ✓ Helping banks to initiate and grow their green lending business by revealing new clients

Toolkit for Impact Evaluation of Public Credit Guarantee Schemes for SMEs

- Evaluating a CGS' impact is necessary to account for the effective use of public resources, measure the achievement of the CGS policy objectives, and improve its performance
- The Toolkit reviews a variety of impact evaluation techniques and proposes a selection process for an impact evaluation framework that is rigorous, credible, and at the same time practical, straightforward, and relatively inexpensive to implement.

Toolkit for Impact Evaluation of Public Credit Guarantee Schemes for SMEs

*Prepared by the Secretariat of the Task Force for the Development of a Toolkit
for Impact Evaluation of Public Credit Guarantee Schemes for SMEs*

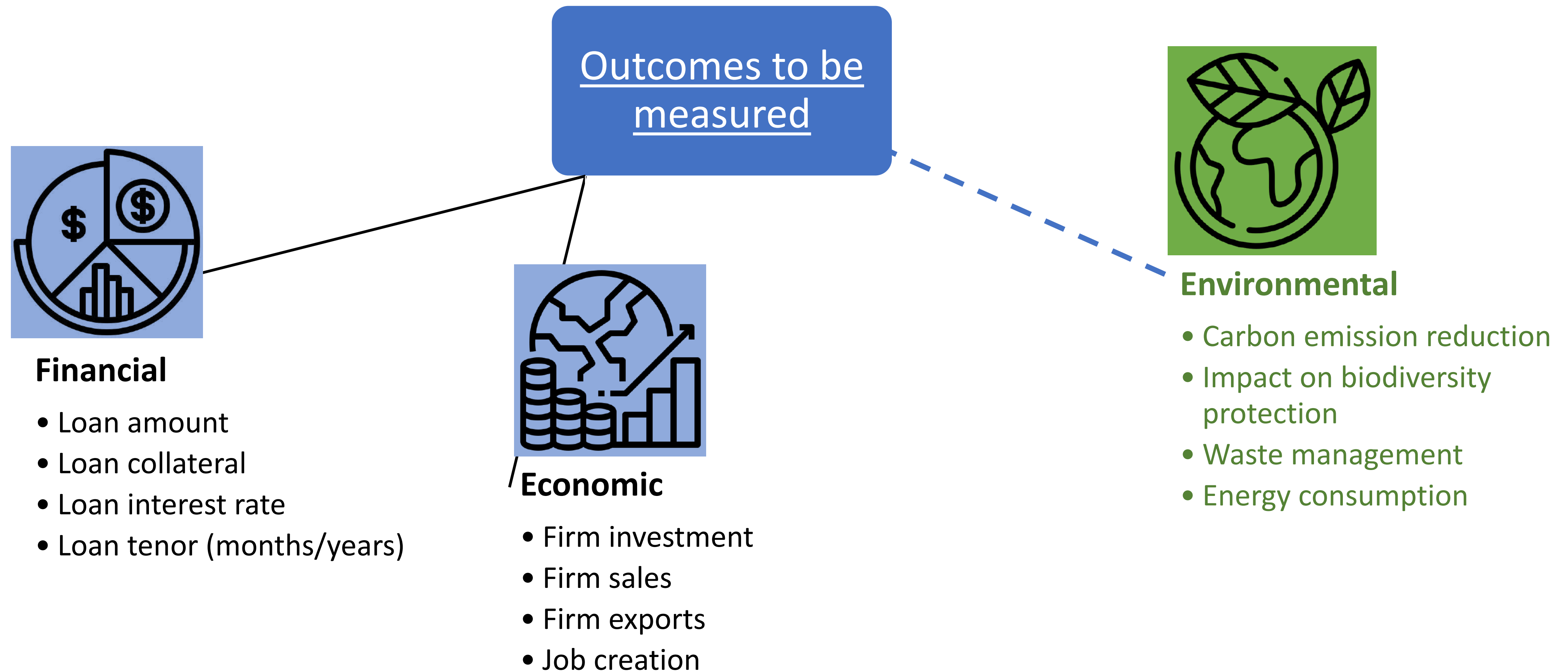


WORLD BANK GROUP



Strengthening Financial Sectors

Definition of Indicators



Key Issues with Evaluations

- Measuring impact is not an easy task and involves a trade-off among evaluation techniques and budget considerations, among others.
- Methods:
 - Quantitative approach vs. qualitative approach.
 - Quantitative methods can provide clearer answers but are technically challenging.
 - Qualitative techniques are easier to implement but cannot provide reasonable estimates of the impact.
- Cost:
 - Evaluations can be costly, especially data collection, and therefore to be justified stakes should be high.
 - Little should be known about the CGS impact

What about “green guarantees”

- Cases for green guarantees



aecm



**Guarantee Institutions
Promoters of the
Sustainable Transition**

Brussels, September 2023

Thanks to the EMGN family

