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Defining "green" for green finance

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Different definitions already in use



Common Principles for Climate Mitigation Finance Tracking Version 2 – 15th June 2015

Individual green lending frameworks

Green Bond Endorsed Project Catalogue (2015 Edition)



"Energy and Ecological Transition for the Climate" Label

Level-II Category	Level-III Category	Specification/ defining criteria	National Industries Classification Code
1.1. Industrial Energy Saving	1.1.1 Device/Facility Construction and Operation	1. For the industries with a national standard of energy consumption allowance for unit	E-Construction-48 Civil Engineering Construction

Individual green bond frameworks

S&P Global Ratings Green Evaluation

Transparency + Governance + Mitigation or Adaptation = Green Evaluation

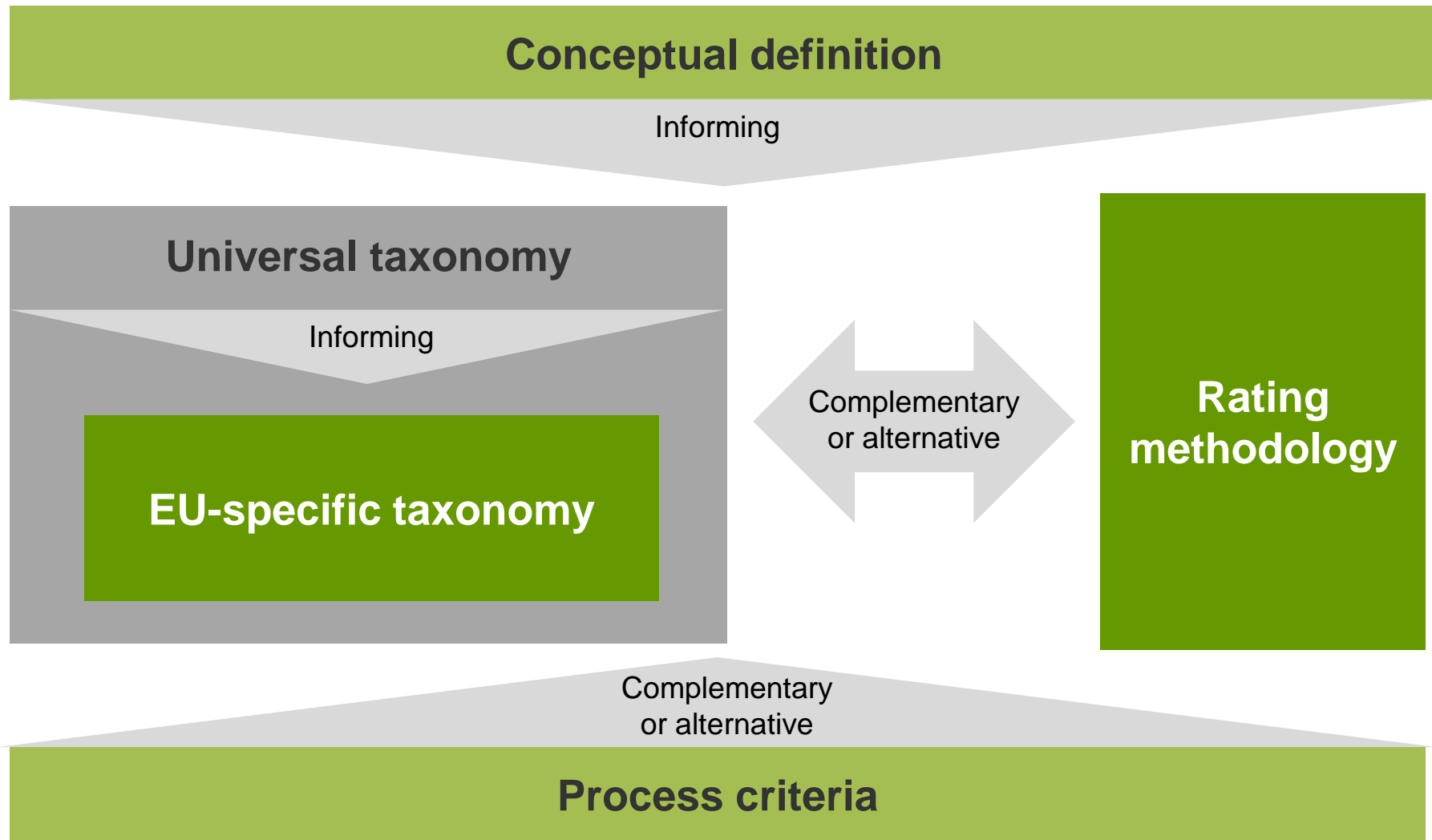
E1.0 Renewable & alternative energy	E2.0 Energy efficiency	E3.0 Water infrastructure & technologies	E4.0 Pollution control	E5.0 Waste management & technologies	E6.0 Environmental support services	E7.0 Food, agriculture & forestry
E1.1 Wind power generation equipment	E2.1 Power network efficiency	E3.1 Water infrastructure	E4.1 Pollution control solutions	E5.1 Waste technology equipment	E6.1 Carbon and other environmental assets trading	E7.1 Sustainable and efficient agriculture
E1.2 Solar energy generation equipment	E2.2 Industrial energy efficiency	E3.2 Water treatment equipment	E4.2 Environmental testing and gas sensing	E5.2 Recycling and value added waste processing	E6.2 Environmental consultancies	E7.2 Logistics, food safety and packaging
E1.3 Other renewables equipment	E2.3 Buildings energy efficiency	E3.3 Water utilities	E4.3 Public transportation	E5.3 Hazardous waste management	E6.3 Diversified environmental	E7.3 Sustainable forestry and plantations
E1.4 Renewable energy developers and IPPs	E2.4 Transport energy efficiency	E3.4 Diversified water infrastructure and technology		E5.4 General waste management		
E1.5 Biofuels	E2.5 Consumer energy efficiency			E5.5 Diversified waste and technology		



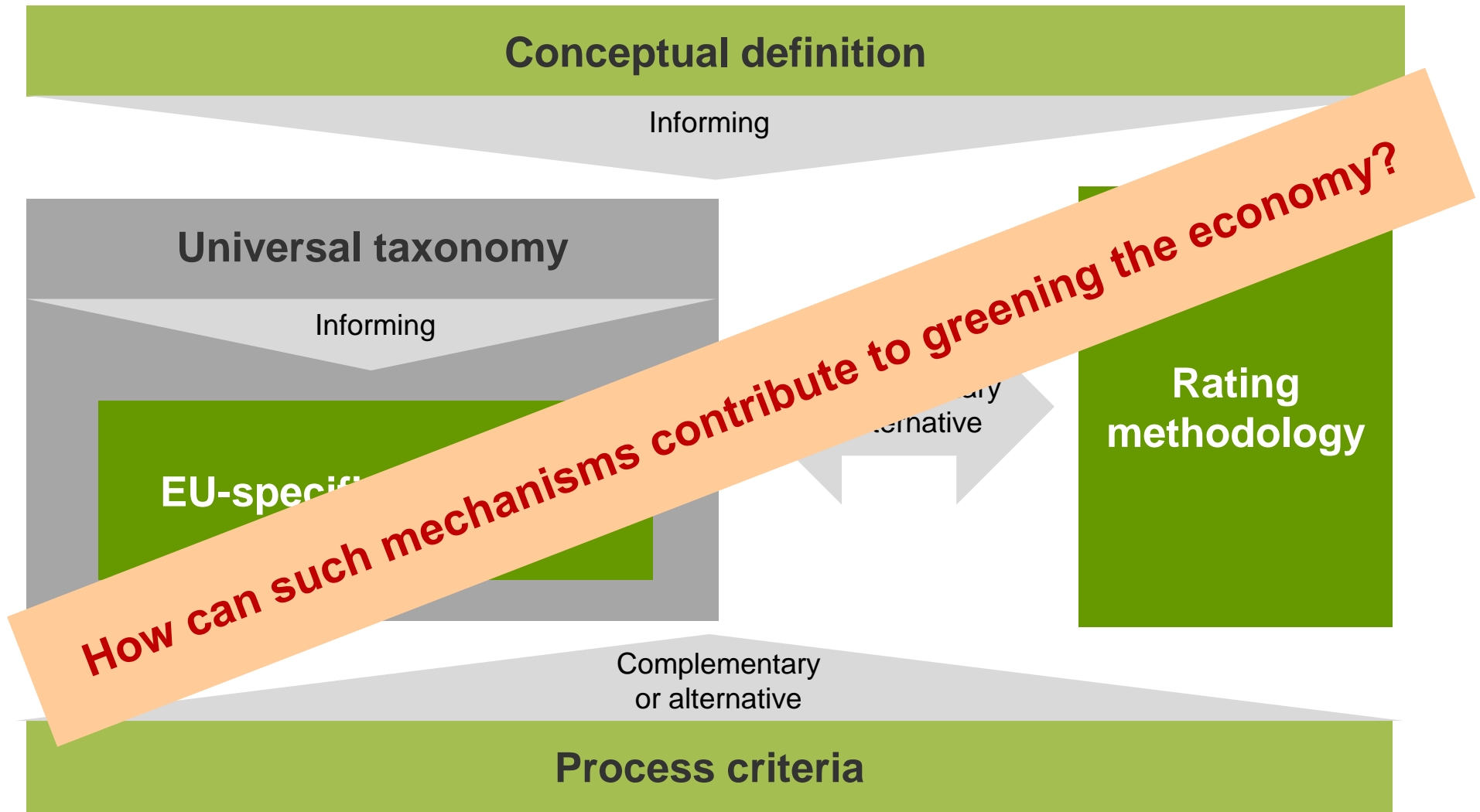
- **Means:** Objectives/purposes, taxonomies, positive lists, exclusions, ...
- **Scope:** broad vs. narrow, common vs. uncommon assets / exclusions, ...
- **Detail:** low/general vs. high/detailed
- **“Shading”:** binary vs. incremental approaches
- **ESG:** considered vs. not considered

> Potential implications for the EU?

5 options for defining green



5 options for defining green



Taxonomy

1) “Cherry picking” or “re-labelling” of what is already sustainable

Would it lead to 1) only existing investments being re-labelled as “sustainable” or would 2) new investments be sought?

- Depends on net benefits for sellers/buyers, project pipeline

2) Actual effects on the activity-performing companies

Does the sustainability intention / label matter to the company? Does it trigger awareness and action?

- Difficult if investment would have been made anyways or if re-financing
 - Depends on net benefits for the company
-



Taxonomy

3) “Gold standard” vs. “transition taxonomy”

*How far should taxonomy go in “helping brown sectors become greener”?
E.g. “sustainable investments” into brown companies? Effect of “do no harm”?
What is better – “gold” or “transition”?*

- Debate is prone to instrumentalisation
- How can TEG and Platform, once established, maximize neutrality?

Taxonomy

4) Applicability to different types of finance/investments

Is the taxonomy applicable across entire investment & lending value chain?

Explanatory Memorandum, COM(2018) 353 final:

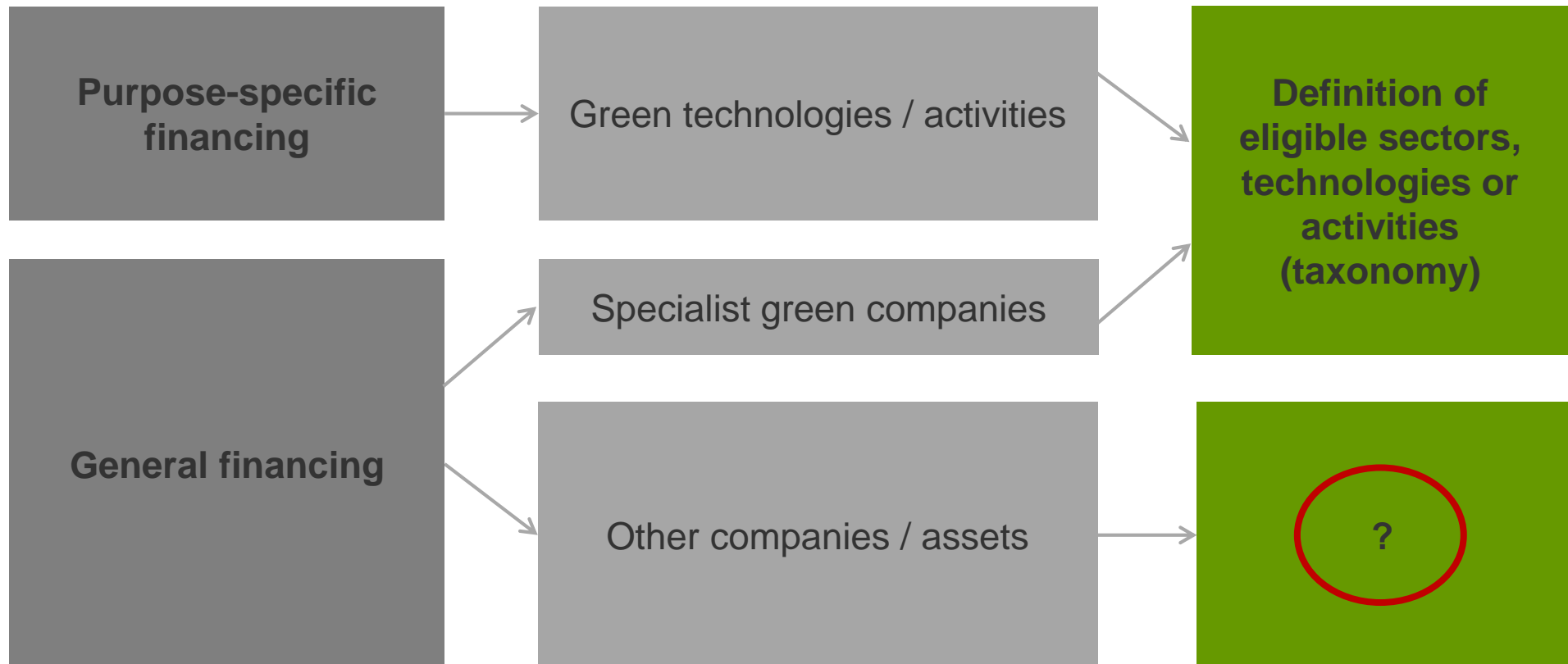
“Companies that perform several activities and only some of them are environmentally sustainable, may have different degrees of environmental sustainability, that can be determined, for instance, based on the proportion of turnover that originates from sustainable activities [...].

The assets that are used to finance only the environmentally sustainable activities of the company (e.g. certain types of bonds) will be considered environmentally sustainable investments, while other assets may have a different degree of environmental sustainability.”

Taxonomy

4) Applicability to different types of finance/investments

Is the taxonomy applicable across entire investment & lending value chain?





Conceptual definition

- Signals importance, raises awareness
- More concrete guidance required
- Needs to be complemented by other mechanisms

Defining “green” in the context of green finance:

“A definition of “green” will not be sufficient to stimulate green investment by investors who do not have specific green objectives or mandates.

*For such non-green financial stakeholders, **the extent to which policy is supporting, or is likely to support, what is included in the definition of “green”** is decisive: this determines whether certain investment items can be expected to become more or less profitable in the future.”*



Process criteria

- Raising awareness, especially of companies that need further greening
 - Active, intended exchange (e.g. signaling and engagement)
 - Unintentional exchange (e.g. information exchange for ESG analysis)
- Applicable to “untargeted financing”
- Impact depending on uptake of criteria by investors/lenders

2°II, UNEP FI, WRI (2016):

DON'T EQUATE EXPOSURE AND IMPACT. Modifying a portfolio's exposure to different sectors, companies, technologies, or themes does not directly affect the real economy. The extent to which a climate-friendly objective translates into impact depends on the investor's positioning and signaling



Rating methodology

- Applicable to both purpose-specific and general financing/investments
- Triggering action to improve rating
- Several aspects still to be clarified
 - Effect on market initiatives > hampering interest?
 - Feasibility and ease of use > over-generalisation?

Impact of finance/investment depends on...

WHAT is being financed

- Taxonomy: Clearly relevant but certain questions not clarified yet
 - Relevant for whom? How should other stakeholders prepare?
 - How to trigger change – through transition taxonomy or gold standard?
 - (Which) Additional mechanisms required?
- Rating system: Potentially interesting to reach wider universe
 - Further research, e.g. how to build on taxonomy

Impact of finance/investment depends on...

HOW it is being financed (financial & non-financial mechanisms)

- Process criteria: Potentially interesting to reach wider universe
 - Additional research, e.g. to design effective criteria and assess interest

National level:

- Clear policy signals to be provided, incl.
 - Measures to address financial sector (labels, supervisory implications?)
 - Measures to address real economy (lack of pipeline!)
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Thank you!

Presentation at seminar « Quelle définition du “vert” pour le financement de la transition en Belgique ? », 05.10.2018, Brussels

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