Benefits from responsible finance in transition economies

Mikhail Babenko
WWF-Russia Head of Green Economy Programme
we consider green economy in the context of sustainable development and poverty eradication as one of the important tools available for achieving sustainable development and that it could provide options for policymaking but should not be a rigid set of rules
TOWARD A PARADIGM CHANGE

Sustainable development needs to be mainstreamed into financing, domestic budgets and the world economic agenda

• making sustainable development an essential element in company strategies and a core competence of companies – making use of instruments that use sustainable development objectives as a positive label (like fair trade)
• making better use of synergies, complementarities and interplay between public/private financing
• creating new innovative partnerships within a more systematic and holistic framework, leading to country-led investments that are fair to tax-payers and secure wider stakeholder participation while avoiding excessive proliferation of partnerships
Global Environmental Performance Index

http://epi.yale.edu/epi/country-rankings
The Ecological Footprint tracks humanity’s demands on the biosphere by comparing the renewable resources people are consuming against the Earth’s regenerative capacity, or biocapacity: the area of land actually available to produce renewable resources and absorb CO2 emissions.
Figure 8. Biocapacity by Country per person, 2007
Global Challenges

- Climate change and GHG emissions
- Biodegradation
- Concern from investors and shareholders
- Government regulations
- New financial instruments
- Growing requirements from MDBs
## Financial Institutions-Signatories to Voluntary Sustainable Finance Initiatives

in Selected OECD and OECD Candidate Countries (April 2014)

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<th>Equator Principles</th>
<th>UNEP FI</th>
<th>UN PRI</th>
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New development bank: Canadian Export Development Bank

Four new corporate issuers: Toyota, Unilever, SCA, TD Bank

Transport sector green securities: Toyota with an ABS linked to electric and hybrid vehicles

New currencies: GBP, CHF

Green Bond Index released by Solactive (a Climate Bonds Partner). It includes mostly labelled issuance as well as some project bonds.

Top 5 issuers for the quarter

EIB = $2.9bn
Toyota = $1.75bn
World Bank = $1.3bn
Unibail-Rodamco = $1bn
TD Bank = $452bn
Norway's Top Party Approves Proposal to Mandate Renewable Energy Investment

The Prime Minister of Norway, Erna Solberg led her political party (Høyres) at their national convention late last week in adopting a new party policy:

“Create a new mandate for direct investments in renewable energy under the Government Pension Fund - Global, with the same requirements for the management of that Fund's other investments.”

Norwegian Government Pension Fund Global

the gross impact of this “doubling” will be an additional $0.6 billion USD to renewable energy, from a current $1 billion USD - contrary to the $5 to 8 billion total reported globally
Chinese and international banks are following similar sustainable principles. In practice they have diversified procedures and products.
Sustainability in the private sector is increasingly understood as the creation of not just financial and economic value but also long-term environmental and social value for a wide range of stakeholders – including shareholders, employees, customers, suppliers, communities, and public-sector partners – with particular consideration for the needs of future generations.

- Credibility and reputation
- Stakeholder demand
- Inspiration from development banks
- Government incentives
- Better risk management
- New business opportunities
• Green economy – economy which assures wellbeing growth and social equity within the existing biocapacity

• ESG policy incorporation – possibility to properly manage risks at long-range planning scale

• ESG policies – proxy indicator of corporate management standard (hypothesis)
WWF approach

**PHASE 1. SELF-ASSESSMENT**
- Review of existing project portfolio and identification of environmental and social risks of each individual project and/or client
- Exploration of ways to balance environmental and social risks in loan/investment portfolio
  - Review of existing project portfolio and identification of environmental and social opportunities of each individual projects and/or client
  - Exploration of ‘green’ market opportunities

**PHASE 2. STAKEHOLDER ENGAGEMENT**
- Continuation of activities as per Phase 1
- Information disclosure (CSR reports, processing of information requests, etc)
- Creation and use of effective channels for a dialogue with stakeholders, including grievance mechanisms
  - Continuation of activities as per Phase 1
  - ‘Green’ awareness campaigns among stakeholders (including employees and existing and potential clients)
  - ‘Green’ office

**PHASE 3. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY**
- Continuation of activities as per Phase 1 & 2
- Environmental and social responsibility strategy and action plan with measurable targets, assisted by robust internal and external communication regarding its rationale
- Development and implementation of environmental and social screening criteria for evaluation of clients and projects (checklists, decision trees, manuals, etc)
- Effective bodies and channels for cooperation with clients on ESG issues, including EIA and energy-efficiency measures
- Internal and external environmental and social compliance and grievance mechanisms
  - Continuation of activities as per Phase 1 & 2
  - Prioritisation of existing ‘green’ market opportunities
  - Market penetration within identified niches

- Identification of what sustainability IS for a FI
- Measuring and assessing
- Development of policies
- Adapting relevant procedures and routines (integration into project cycle)
- Implementing and monitoring

Public involvement
Out of 15 top Russian banks only 2 have CSR policies
And only 2 have CSR reports

According to RUIE 16 banks provided non-financial reports, only 6 – for 2012

From EBRD recent FI projects only 1 has policy and only 2 reported on CSR related issues
Perception of CSR by different stakeholders

Source: Uralsib
Challenges in the region

- Significant degradation of environmental regulations in the region
- Significant fiduciary risks
- Significant indebtedness
- Short scope of business planning
- Strong paternalism in economy
- Social and environmental dumping
- Significant social problems
- Significant dependence on state or external funding sources
WWF Vision

- Project categorisation
- Complaint mechanisms
- Public engagement Sector specific policies
- Participation in voluntary responsible finance initiatives
- Central Bank regulations (e.g. China Green credit Guidelines of CBRC, Brazil Socio-Environmental Liability Policy)
- Government incentives
- Aarhus convention ratification
-
Problems for finance

Natural resources

Sensitive areas
High profits
High local impact
Low local engagement
High environmental impacts

Examples: Yamal, Sakhalin, Small Hydropower Project (SHPP) Goloshyno, Sevan Hydropower, Dariały

Infrastructure

Sensitive areas
Increasing debt
High local impact
Low local engagement
High environmental impacts
Questions?