**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

GREEN ECONOMY TRANSITION APPROACH

As approved by the Board of Directors at its meeting on 30 September 2015

"Transition to a low-carbon economy and rapid structural transformations provide a story of growth and poverty reduction that is attractive and sustainable. The risks of climate change are potentially immense. The benefits of taking action are also clear: we can see that economic development, reduced emissions, and creative adaptation go hand in hand. A committed and strong low-carbon transition could trigger a new wave of economic and technological transformation and investment, a new era of global and sustainable prosperity. Why, then, are we waiting?"

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Extract from his new book
"Why are we waiting? The logic, urgency and promise of tackling climate change".
Released in June 2015

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Reflecting the needs of its countries of operations and an increased focus on environmental sustainability in the context of the Sustainable Development Goals and COP21, and in line with the strategic directions set out in the Strategic and Capital Framework 2016-2020 (BDS15-13) approved at the 2015 Annual Meeting, this paper develops a Green Economy Transition approach for the EBRD.

Like other aspects of transition, the shift to an environmentally sustainable economy is centred on the transformation of markets, behaviours, products and processes, technological deployment and new skills. With its transition focus and strong operational record, the Bank is well positioned to scale up its transition impact and environmental financing activity across its countries of operations through the proposed Green Economy Transition (GET) approach.

The GET approach is based on the transition and client-driven business model of the EBRD and in line with its operating principles of transition impact, sound banking and additionality. Reflecting the market failures in this area, policy work will play an important role alongside the financing activity of the Bank.

The GET approach aims to increase the Bank's green financing to around 40% of total EBRD financing over the SCF period up from a 25% target during the CRR4 period .

The GET approach builds on the successful organisational structure underpinning the delivery of the Sustainable Resource Initiative. Specific budget implications will be considered in the context of the upcoming Strategy Implementation Plan 2016-2018. The Bank will pursue an active approach to mobilising funding for the GET, by further developing the strong relationships established with bilateral donors supporting the green activities of the EBRD, with the EU and with multilateral funds.

GREEN ECONOMY TRANSITION APPROACH

EXECUTIVE SUMMARY

This paper translates the strategic priority to address 'common global and regional challenges', set out in the Strategic and Capital Framework (BDS15-013), into a specific approach to scale up the transition impact and environmental financing activity of the EBRD within its region of operations. The approach builds on the Bank's track record, experience and skills established over the past 10 years.

Context

EBRD countries of operations began their transition with a significant handicap, carrying the communist era's legacy of widespread environmental neglect and wasteful use of energy. In spite of significant capital stock transformation during the past 25 years and associated improvements, carbon intensity and other environmental standards are still generally poor. In the SEMED region, the situation is not very different, although water stress is much more severe. Market failures to internalise and monetise the cost of environmental damage have exacerbated this situation.

Accordingly, there is a need for fast and material changes in an economic space where markets are currently weak or non-existent. Externalities are large, global and intergenerational. Environmental impacts, particularly climate change, are cumulative and non-linear. Like other aspects of transition, the shift to an environmentally sustainable economy is also centered on the transformation of markets, behaviours, products and processes, deployment of technologies and new skills. Given the significance of early mover, information, network and capital markets externalities, activities that help remove such failures and foster green innovation bring the market closer to efficiency.

At the international level, the need for ambition is being underlined by the United Nations' Sustainable Development Goals and the preparatory work for the Paris COP21. In this context, the G7 Summit Leaders' Declaration in June 2015 calls "on MDBs to use to the fullest extent possible their balance sheets… in delivering climate finance and helping countries transition to low carbon economies". Accordingly, a number of MDBs are formulating specific approaches and proposals to their respective Boards.

A letter from the Ministers of Finance of France and Peru invited the EBRD, in view of the upcoming SDGs and COP21, to "initiate a discussion with all shareholders on the possibility to enrich EBRD's current mandate with a specific 'transition towards green economy' strategic pillar" which could lead to "forward-looking declarations and announcements ahead of COP21".

EBRD track record

From a **policy** perspective, the promotion of environmentally sound and sustainable development in the full range of its investment and technical cooperation activities is intrinsic to the Bank's mandate from its founding. Elements of the Green Economy Transition approach are already embedded in the Bank's constitutive documents and operations, including but not limited to:

- the Agreement Establishing the Bank;
- the Environmental and Social Policy (ESP) of the Bank;
- targeted initiatives focusing on sustainable resource use including the Sustainable Energy Initiative (SEI) and the Sustainable Resource Initiative (SRI); and
- the Environmental Sustainability Bond Programme (ESBP).

In line with the ESP, the Bank has developed advanced operational approaches to scale-up its sustainable energy activity under the Sustainable Energy Initiative (SEI) and is promoting water and materials efficiency under its Sustainable Resource Initiative (SRI). The Bank has also introduced environmental sustainability criteria in the current MEI, Transport and Energy sector strategies.

Over the years, the importance awarded to aspects of the green economy in the Bank's work has increased, reflecting both the priorities of the EBRD countries of operations, as well as the growing attention to environmental sustainability at the international level.

This growing emphasis has been formalised in a set of documents linking **transition impact** and the environment, including, where appropriate, changes in the project transition impact assessment methodology. These documents include:

- *Considering Environmental and Sustainability Objectives in Assessing Project Transition Impact* (CS/FO/08-13);
- *Transition Impact of Projects Promoting Energy Efficiency and Lowering Carbon Emissions* (CS/FO/10-16);
- The special report on 'The Low Carbon Transition' officially presented at the 2011 Annual Meeting in Astana; and
- *Case Studies on Integrating Climate Change Mitigation Issues into the Transition Impact Methodology* (CS/FO/12-07).

The above documents reflect that modern and well-functioning market economies incorporate climate change and environmental considerations into their decision making process, and turn them into drivers of growth and competitiveness. The promotion of environmentally sound and sustainable development therefore goes hand in hand with other aspects of the transition process.

Environmental goods and services are particularly exposed to different forms of market failures, in comparison with other categories of goods and services. In the absence of correct market signals, private agents are deterred from investing in certain areas. Innovation suffers from other market failures such as network, early mover and capital market failures. These need to be overcome to allow transition to happen.

The GET approach builds on a **record of delivery** over the past 10 years starting with the launch of the Sustainable Energy Initiative in 2006 and widened to the Sustainable Resource Initiative in 2013. The cumulative SRI/SEI track record as of mid-June 2015 includes:

- EBRD financing of **€17.2 billion** (**€18.3 billion** as at end August 2015);
- **977 projects** (**993 projects** as at end August 2015);
- total project value of **€94.6 billion**;

- **SRI water and materials efficiency** related ABI of **€821 million** in 2013 and 2014; and
- **€602 million** invested since 2011 in **climate resilience/adaptation** measures in 99 Bank projects.

Reflecting the market failures in this area, policy dialogue was recognised at an early stage as a core component of the SEI and SRI. Key areas of policy work have covered topics ranging from national-level sustainable energy strategies and renewable energy legislation to carbon market development.

Considering the magnitude of operations and financing involved, the Bank has developed a specific Monitoring, Reporting and Verification (MRV) system to estimate the impact of the Bank's operations. The MRV system shows the following cumulative results as of mid-June 2015:

- carbon emissions reduction: **70 million tonnes / year;**
- annual production of renewable energy: **60 million MWh/yr;**
- estimated annual energy savings: **1.1 million TJ/yr (equiv. to 26 million toe/yr);**
- water savings: **10.5 million cubic meters/year**; and
- waste avoided: **390,000 tons/year**.

Beyond these positive environmental impacts, the performance of the SEI/SRI was examined in the context of the SIP prioritisation work, including an analysis of the performance of operations across strategic themes relative to transition impact and financial indicators. This analysis shows that the SEI/SRI strategic theme is the highest performing large initiative from a transition impact/ financial return balance perspective with a Portfolio Transition Impact of 69.9 and an operating assets margin of 3.1%[1].

Green Economy Transition approach

The concept of the "Green Economy" has attracted growing attention since the start of this decade. It can provide the basis for a comprehensive and consistent approach by the Bank, a **Green Economy Transition (GET) approach,** which would be grounded in the Bank's existing business model and strong track-record while aiming to further increase its impact. Based on an examination of definitions of the green economy, and taking into account its mandate and operating principles, the EBRD could define the Green Economy as follows:

> A Green Economy is a market economy in which public and private investments are made with a specific concern to minimise the impact of economic activity on the environment and where market failures are addressed through improved policy and legal frameworks aiming at accounting systematically for the inherent value of services provided by nature, at managing related risks and at catalysing innovation.

Implementation of the GET approach will be based on the established business model of the EBRD and in line with its operating principles. Accordingly, any incremental activity under the GET would observe the principles of transition, sound banking and additionality. The Bank would continue to ensure that all projects are in compliance with the Environmental and Social Policy (see section 3.1.1) and are designed to meet EU standards within a reasonable

[1] Figures correspond to the performance of the SEI/SRI debt operating assets which account for 91% of total SEI/SRI operating assets

period of time.

Incremental GET activity beyond the current SRI would be driven by the following factors:

- a ramp up of existing activities through the recognition of scale effects on systemic impact;
- enhanced innovation;
- a broadening of the environmental dimensions; and
- an active use of private and public channels of transition impact within the Bank's mandate constraints.

Ramp up of existing activities. The Bank has established a best practice approach in many areas including renewable energy project financing, district heating rehabilitation and the Sustainable Energy Financing Facilities (SEFFs) through local banks. This expertise can be applied to repeat projects to address the significant transition gaps in this area in the Bank's countries of operations applying the transition impact methodology described in section 5.1.1.

Enhanced innovation. There are a number of technologies with significant potential environmental benefits which are currently not deployed in the EBRD region and specific high standard equipment and materials with a negligible market penetration relative to overall potential. As such, a focussed technology transfer approach to stimulate demand for such measures as well as to bring suppliers of such technologies and equipment into new markets is very important. This leads to the development of new business areas involving transition impact through the introduction of innovative technologies.

Broadening of environmental dimensions. Environmental projects would be pursued under GET to promote the sustainability of natural resources use, to support pollution prevention and to avoid/reduce the degradation of ecosystems. The Bank could also consider the financing of Environmental and Social Action Plans. Incremental activity in this area would be developed within the operating principles of the EBRD.

Active use of private and public transition impact channels. Under GET, the EBRD could make greater use of the flexibility afforded by the Bank's mandate in the range and composition of financing channels and capacity building tools. Certain green economy opportunities are best addressed through public channels of transition impact. The impact of potential incremental activity through public channels is expected to be limited and to have a marginal impact on the Bank's private/public portfolio ratio which would remain above the prescribed 60/40 ratio.

In support of the GET, the EBRD would deepen its **policy dialogue** engagement to enhance the positive impact of regulation and legislation. In addition to the transition impact of addressing the market failures discussed above, these activities would also further increase the Bank's physical impact.

Under the GET approach, GET **ABI** as a proportion of total EBRD ABI would aim to reach a share of 40% by 2020 up from a 25% target during the CRR4 period. This reflects an intended direction subject to the application of the operating principles of the EBRD, to market conditions and to the availability of internal resources to achieve this result.

The incremental GET activity is expected to be broadly distributed across the Bank's regions of operations with different types of activities reflecting the Assessment of Transition Challenges in individual country strategies and specific country needs and priorities.

Scale recognition is expected to be the main driver of incremental financing in the short term. A more active use of public channels of transition impact would take longer to impact activity levels due to generally longer lead times for project preparation. The contribution of sector innovation and the environmental dimension will build up over time contributing to incremental financing over the medium term.

Over the five-year Strategy and Capital Framework period (2016-2020), EBRD activities under its Green Economy Transition approach are projected to lead to:

- EBRD GET financing of up to **€18 billion** with annual GET financing reaching over €4 billion by 2020;
- based on historical leverage of EBRD climate finance, these would mobilise another €60 billion for a total project value up to **€78 billion**; and
- driven by the EBRD business model, between half and two-thirds of GET financing would be expected to be in the **private sector**.

The achievement of such results assumes: (i) the full internalisation of the GET in the transition impact methodology; (ii) a systematic integration of sustainability in country strategies; (iii) appropriate resources for incremental transactions and technical skills; and (iv) continued access to multilateral and bilateral funds supporting policy and technical cooperation activities.

The Bank will continue to work with a broad range of partners including the United Nations, the European Commission, the International Energy Agency, bilateral and multilateral donors and other MDBs building on the active dialogue and relationships established in the context of its climate related activities. This collaboration also covers broader environmental topics beyond climate change including the various initiatives which MDBs are considering in the run-up to COP21.

Implementation

Sustainability has been taken into account in the Bank's **transition impact methodology** since the concept of transition was first formalised in the mid-1990s. Since then, there has been significant work to mainstream environmental considerations in the Bank's operations. Nevertheless, certain implications of the concept have been difficult to implement in practice and the GET approach aims to address these implementation issues in three key areas:

- **Country diagnostics and strategies, ATCs and the relevance of scale.** Building on better upfront diagnostics at country level and on the assessment of sector-level transition challenges, country strategies will form a view on the priorities for investment and policy interventions needed to achieve systemic impact. Following this, the assessment of the transition impact of individual projects will take account of the individual country priorities. Furthermore, country strategies will allow the Bank to take a portfolio view of the order of magnitude of activities required to support objectives, such as e.g. the role of critical mass in encouraging sustainable behaviours and technologies.
- **Environmental physical impact.** Projects with material outcomes (e.g. local emissions

reductions and water savings) can contribute significantly to transition impact when they bring clear demonstration effects or improve the competitive landscape. These contributions, measured against relevant benchmarks, will be mainstreamed as a source of transition in the assessment of transition impact.

- **Public channels of transition impact.** Recognising the importance of state intervention to set the required policy and regulatory reform and building on the EBRD experience that such intervention is best supported by an operational dialogue on specific projects, the Bank can enhance its transition impact by employing both private and public delivery channels. This will enable the Bank to enhance its capacity to achieve critical mass in environmental and emissions reduction efforts; to implement advanced technical solutions in public sector buildings and related infrastructure; to engage in strategic policy dialogue and technical cooperation; and to achieve significant demonstration effect.

The development and implementation of the GET approach would build on the **SEI/SRI organisational structure** which has allowed to scale-up the sustainability financing activities of the Bank in a significant manner over the past 10 years. Specific **resource** aspects related to the GET will be presented in the SIP 2016-18.

The formulation and implementation of specific funding strategies to support the development of the SEI and SRI have been a key determinant of the strong results achieved under these initiatives. **External funds** support a broad range of policy dialogue, technical analysis, project preparation and implementation, and capacity building activities which have been essential to the achievement of systemic change and positive environmental impact. The availability of grants and concessional funding has also been important to address market failures and mitigate risk. Building on the strong relationships established with bilateral donors supporting the green activities of the EBRD, with the EU and with multilateral funds, the Bank will pursue an active GET funding mobilisation approach.

GREEN ECONOMY TRANSITION APPROACH

1. Introduction

This paper provides a basis for the Board of Directors to consider for approval the proposed Green Economy Transition approach addressing the comments made by Directors at the Board Information Session on 9 July 2015 and at the meeting of the Financial and Operations Policies Committee on 15 September 2015.

From an internal perspective, this proposal builds on the progress made to date in establishing the environmental dimension as a component of the transition process at the core of the EBRD mandate. From an external perspective, this proposal represents a concrete contribution of the EBRD to the further scaling-up of its environmental sustainability financing based on its specific business model.

This paper:

- outlines the context within which the proposal is being considered both in terms of the situation of the EBRD region of operations and of the international agenda;
- reviews the EBRD track record describing the framework within which it operates in this area and results to date in terms of financing, policy dialogue, impact and performance;
- proposes a Green Economy Transition approach within its region of operations including drivers of incremental activity and financing; and
- highlights implementation aspects related to transition impact methodology, organisational set-up, partnerships and external funding.

This paper translates the strategic priority on 'common global and regional challenges' set out in the Strategic and Capital Framework (BDS15-013) into a specific approach to scale up the environmental financing activity of the EBRD within its region of operations building on the track record, experience and skills established over the past 10 years. As such, this document provides a specific input to the formulation of the first Strategy Implementation Plan (SIP) for the period 2016-2018. Resource requirements are to be considered in the SIP process as part of a comprehensive proposal and review by Directors.

2. Context

2.1 EBRD region of operations

EBRD countries of operations began their transition with a massive handicap, carrying the communist era's legacy of widespread environmental neglect and wasteful use of energy. In spite of significant capital stock transformation during the past 25 years and associated improvements, carbon intensity and other environmental standards are still generally poor. In the SEMED region, the situation is not very different, with the additional challenge of significant and worsening water scarcity. The inability of markets to internalise and monetise the cost of environmental damage have exacerbated this situation, and led to investments that have worsened the environmental impact of economic growth. Finally, the current and future impact of climate change – particularly in terms of water scarcity but also due to increasingly unpredictable and extreme weather patterns – have further exacerbated the environmental challenges faced by the Bank's countries of operations.

Accordingly, there is a need for fast and material changes in an economic space where markets are currently weak or non-existent. Externalities are large, global and intergenerational. Environmental impacts, particularly when referred to climate change, are cumulative and non-linear. Like other aspects of transition, the shift to an environmentally sustainable economy is centered on the transformation of markets, behaviours, products and processes, adoption and deployment of innovation and new skills[2]. Well-designed activities should aim to reduce global or local externalities and increase the efficiency with which markets allocate scarce resources. Given the significance of early mover, information, network and capital markets externalities, activities that help remove such failures and foster green innovation bring the market closer to efficiency.

A number of developing and developed countries have taken notice of the opportunity and are investing strongly in creating more sustainable and resilient economies, as the environmental benefits – and associated co-benefits – of such a transition are significant. China's investment in renewable energy ($83.3 billion in 2014 alone), which is now higher than its investment in fossil-fuel sources, is perhaps the most striking example, driven by the need to reduce local pollution and decrease dependence on fossil fuels. This is also evident in the 15% target it set for the share of energy supplied by renewables by 2020[3]. In this new race for more innovative, resilient and sustainable economic systems, several countries of operations risk being left behind if both markets and governments fail to recognise and capture the opportunities offered by new technologies and business models.

Despite progress in energy efficiency and the use of renewable energy, the pan-European region, together with North America, still has the highest carbon emissions per capita in the world, over five times the limit which would stabilize global warming by 2050. Some countries of Eastern Europe, the Caucasus and Central Asia remain among the most carbon-intensive economies in the world. Fossil fuel subsidies are still high throughout the region and artificially low prices of electricity and heat result in a wasteful use of energy in some transition economies. Moreover, despite ambitious commitments to reverse the loss of biodiversity, ecosystems are still under threat.

The region has taken important steps to reduce environmental degradation with noticeable results in terms of improved urban air quality, the phase-out of ozone-depleting substances, a larger use of renewable sources of energy, improved water management and increased coverage of protected areas. Most Governments of the region are signatories or parties to the major global and regional environmental and climate change conventions and protocols. Overall, tangible progress has been made in integrating the sustainable development dimension into policymaking in key sectors such as agriculture, transport and housing, reducing carbon dioxide (CO2) emissions, increasing energy efficiency and strengthening the sustainable management of forests.

However, Europe and Central Asia are still far from achieving sustainability. Growth in incomes has been associated with deterioration in key environmental indicators, so much so that the pan-European region has the highest ecological footprint compared with the rest of the world. Indeed, most countries in the region are running a bio-capacity deficit, i.e., they

[2] Extract from: *Considering Environmental and Sustainability Objectives in Assessing Project Transition Impact* (CS/FO/08-13) and from: *Transition Impact of Projects Promoting Energy Efficiency and Lowering Carbon Emissions* (CS/FO/10-16).

[3] UNEP/Frankfurt School/ Bloomberg NEF, Global Trends in Renewable Energy Investment, 2015

use more resources than they have in their territories[4].

On the whole, the EBRD region of operations continues to face significant environmental and resource efficiency challenges. While a number of countries experienced a significant improvement in materials consumption and **resource productivity** since 1995 (see Figure 1), resource productivity in the EBRD region of operations, in PPP terms, remains half of that in the EU-15 (see Figure 2).

Figure 1: GDP, population, resource productivity and consumption in EBRD countries of operations (excluding Mongolia and SEMED) (SERI, 2011)

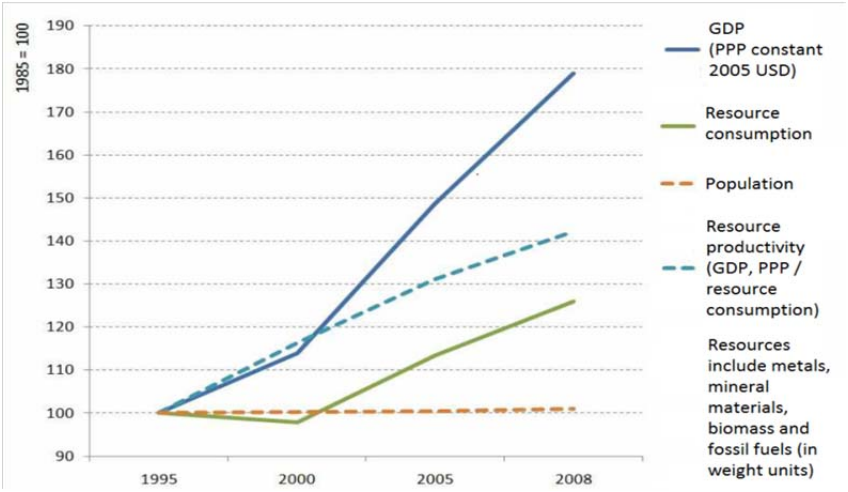
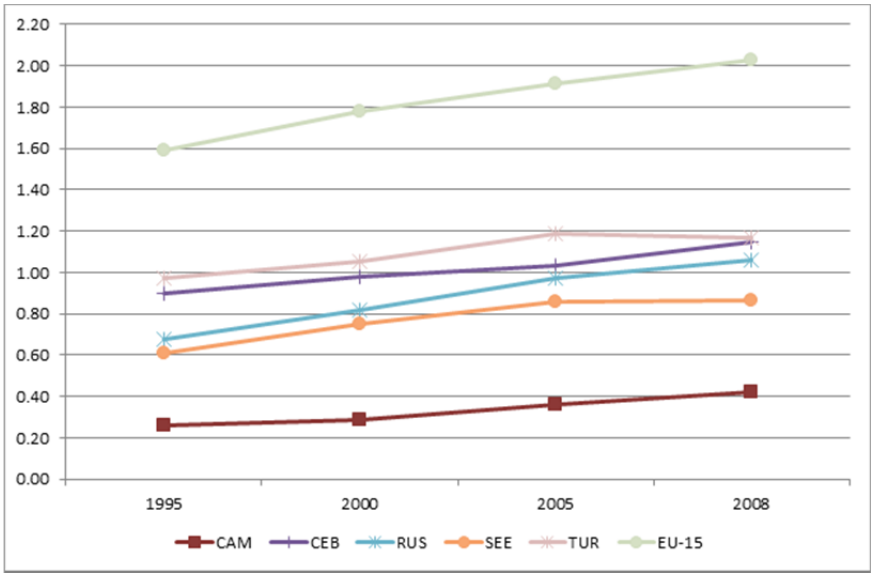


Figure 2: Resource productivity (GDP/domestic material consumption) in the EBRD region and EU15 (EBRD calculations based on data from SERI 2011)



[4] Source: 'From Transition to Transformation Sustainable and Inclusive Development in Europe and Central Asia' coordinated by the United Nations Economic Commission for Europe and United Nations Development Programme

Differences in resource productivity reflect, in part, variations in the structure of economies. For example, there is a natural gap between natural resource oriented economies, such as Azerbaijan, Mongolia and Kazakhstan, and service sector-dominated economies, such as the United Kingdom or the USA. However, differences in the share of GDP of the industrial and natural resources sectors alone do not explain the substantial gap of material productivity across countries, even if the best performing countries generally have lower shares of natural resources relative to GDP. Notably, Germany has a similar level of industrial share of GDP compared to the SEMED region, but its material productivity is much higher. Egypt and Kazakhstan are at similar levels of material productivity and industry share of GDP, but have a very different reliance on the contribution to GDP from natural resources. Bulgaria and Latvia have similar levels of resource and industrial share in GDP, but Latvia is much more material productive. This holds true even after roughly correcting for indirect effects.

There are compelling reasons for COOs to improve productivity and decrease their resource intensity as there is a strong positive correlation between material intensity and international competitiveness[5] as shown in Figure 3.

Figure 3: Material intensity and international competitiveness

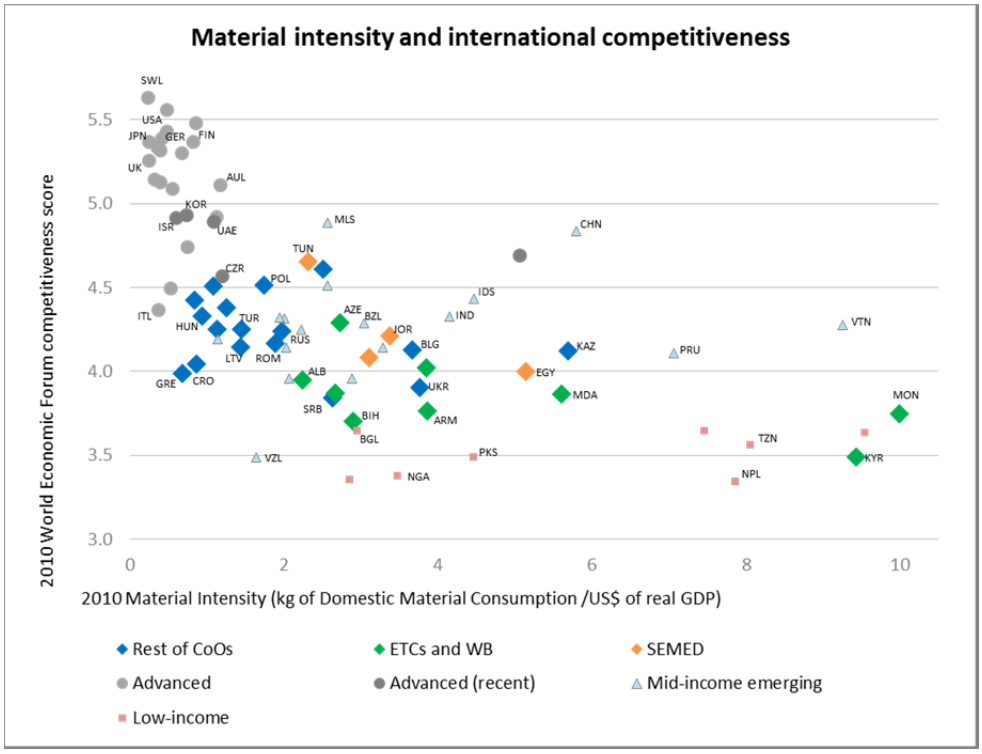


Figure 3 shows that:

- In general, those countries that internalise externalities and allocate resources efficiently (and therefore have lower material intensities) tend to be more competitive (top left of Figure 3) than those that do not (bottom right).

[5] International competitiveness is measured by the World Economic Forum in the yearly Global Competitiveness Report. Countries are scored according to several indicators, such as: strength of institutions, infrastructure development, macroeconomic environment, education, goods, labour and financial markets development, market size and technology innovation levels.

- EBRD countries of operations fall into several 'groups'. ETCs tend toward the lower right hand corner of the Figure (note that Mongolia, with an intensity of 26.6 kg of domestic material consumption /US$ of GDP is beyond the scale captured in the figure), SEMED countries tend to be in the middle right and the remaining countries tend toward the middle left. This is consistent with the fact that countries more advanced on their transition path tend to be more competitive, more efficient and with a lower environmental footprint.
- For example, Germany scores highly on the competitiveness scale (5.39) and has a relatively low material intensity (0.42 kg of domestic material consumption /US$ of GDP). With a lower competitiveness level (4.51), Poland, which is at the higher end of resource productivity within the EBRD region of operations, has a material intensity over 4 times that of Germany (1.75 kg/US$).

Similar patterns and trends are observed when plotting competitiveness against the environmental performance of countries, measured via the Environmental Performance Index (EPI) compiled annually by Yale and Columbia Universities[6]: countries with higher environmental performance scores also tend to be more competitive. Other observations from this data include:

- Material intensity and income are negatively correlated. That is, in general, the higher the income of a country (GDP/capita), the lower the material intensity. This is likely related in part to structural changes as an economy develops away from natural resources sectors towards services.
- Material intensity and the EPI are negatively correlated. That is, in general, the lower the material intensity of a country's economy (kg of domestic material consumption /US$ of GDP), the higher the environmental quality.

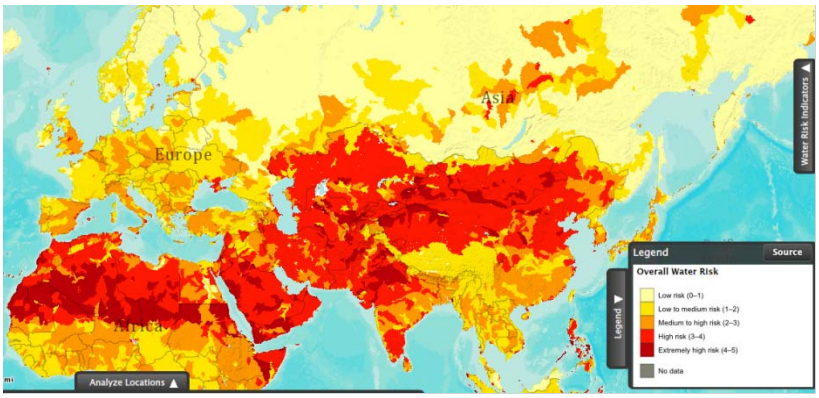
From an **energy** perspective, while there has been an overall decoupling of economic growth from emissions in the region of operations, progress after 1995 has been uneven across countries. As a result, energy and CO2 intensity in the EBRD region remains on average over three times higher than in the European Union (EU).

From a **water** perspective, the EBRD region has some of the most water stressed countries in the world, specifically in SEMED and Central Asia. Using the UNEP measure of water stress[7] the most highly water-stressed countries in the region are Uzbekistan (83% of total annual renewable water resource abstracted per year – in other words, very extreme water stress), Egypt (80%), Jordan (58%), Tunisia (57%), Morocco (45%) and Turkmenistan (41%). The average water stress measure for the EBRD region as a whole is 21% whereas the EU average is around 15%. This is shown graphically in Figure 4.

[6] The EPI brings together numerous country indicators related to the vitality of ecosystems and the health impacts of the environment on the population of the country, such as wastewater treatment rates, air pollution and carbon intensity.

[7] UNEP measures water stress in terms of total water abstraction as a percentage of total annually renewable water resources, with a threshold of 20% indicating water stress and 40% indicating extreme water stress.

Figure 4: Water Risk Indicator (World Resources Institute)



Various factors impede progress in the water sector, including inadequate regulatory and incentive frameworks (low tariffs and insufficient collection of payments for water services), low awareness across a wide range of stakeholders and lack of financial resources to extend or maintain the infrastructure. Coherent financial and investment policies to address water supply and sanitation are often lacking, as are resources to sustain infrastructure at the local level and maintain existing centralised systems. In many countries, more than 30% of water is lost in transfers from supply sources to consumers, such as in open water canals. Access to quality and affordable water services is also an issue as an increasing number of persons are not able to afford the price of water at full cost recovery, especially if costs charged include collection and treatment of wastewater. Social measures often are ineffective and poorly targeted.

In spite of the introduction of biodiversity legislation and nature directives across the region, biodiversity is being lost at an unparalleled pace. The capacity of natural capital and ecosystems to sustain the delivery of goods and services is being undermined. Further land-cover conversion and intensification of land use may negatively affect the region's biodiversity, directly through resource depletion and natural habitat destruction or fragmentation, and indirectly through pollution (for example eutrophication and acidification).

The regions' forest ecosystems are key to sustainable development, contributing to climate change mitigation through carbon storage in trees, and soil and harvested wood products and through providing a renewable construction material and source of energy. While overall forest area is increasing in the region, forest fragmentation is also increasing and is having a detrimental effect on important European habitats. The region's diverse marine and coastal ecosystems are also under threat, due in large part to overexploitation of fisheries. About 45% of assessed European fish stocks are endangered as a result of unsustainable fishing. At the same time, the impact of climate change has become more obvious in recent years[8].

[8] Source: 'From Transition to Transformation Sustainable and Inclusive Development in Europe and Central Asia' coordinated by the United Nations Economic Commission for Europe and United Nations Development Programme

2.2 International context

The **Green Economy Transition** is an increasingly important priority as:

- 2015 is a major year in terms of the international development and sustainability agenda with the **Financing for Development (FFD) Conference**; the adoption of the **Sustainable Development Goals (SDGs)**; and the **21st Conference of Parties (COP21) of the UNFCCC** which will be seeking a universal agreement on climate change mitigation and adaptation.
- Governments as well as private sector and financing institutions across the world are discussing how to support the **implementation of the SDGs and COP21 resolutions**. A recent report published by the UN identifies the goals of **sustainable and efficient use of resources** in consumption and production, **sustainable energy** and **combating climate change** as the **three most transformational challenges** on which the world at large needs to place a strong emphasis for action.
- The G7 Summit Leaders' Declaration in June 2015 calls "on MDBs to use to the fullest extent possible their balance sheets'… in delivering climate finance and helping countries **transition to low carbon economies**". Accordingly, a number of MDBs are formulating specific approaches and proposals to their respective Boards: EIB is preparing a climate strategy, the IDB is working on a new sector framework, the ADB is considering to increase its environmental lending using their additional headroom and the World Bank is working on increasing the share of its environmental financing while preparing a climate action plan for 2016.
- The EBRD has established a strong climate finance track record and experience (see section 3.2), particularly with regards to energy efficiency and the private sector, which provides a relevant base to respond in a concrete and meaningful manner to the above context in line with its mandate and operating principles.
- The EBRD **Board of Governors** was broadly supportive of the further scaling-up of the Bank's activities in the areas of sustainable energy, resource use and energy security at the Annual Meeting in Tbilisi in May 2015.
- A letter from the Ministers of Finance of France and Peru invited the EBRD, in the context of the upcoming SDGs and COP21, to "initiate a discussion with all shareholders on the possibility to enrich EBRD's current mandate with a **specific "transition towards green economy" strategic pillar"** which could lead to "forward-looking declarations and announcements ahead of COP21, in particular at the occasion of a Ministerial level meeting" being organised on the sidelines of the World Bank Group/IMF Annual Meeting in October 2015.

3. EBRD TRACK RECORD

3.1 Policy framework

3.1.1 EBRD and environmental sustainability

The promotion of environmentally sound and sustainable development in the full range of its investment and technical cooperation activities is intrinsic to the Bank's mandate from its founding. Elements congruent with the Green Economy are already embedded in the Bank's constitutive documents and operations, including but not limited to:

- the Agreement Establishing the Bank;
- the Environmental and Social Policy (ESP) of the Bank;
- targeted initiatives focusing on sustainable resource use including the Sustainable Energy Initiative (SEI) and the Sustainable Resource Initiative (SRI); and
- the Environmental Sustainability Bond Programme (ESBP).

From its founding, the EBRD has integrated the environmental dimension in its core constitutive document with Article 2.1(vii) of the Agreement Establishing the EBRD stipulating that: ”the Bank is committed to promoting environmentally sound and sustainable development in the full range of its investment and technical cooperation activities.”

This mandate has been translated into practice through Environmental Policies (1996 and 2003), and more recently through Environmental and Social Policies (2008 and 2014). In accordance with these policies, EBRD has structured all of its projects to meet high environmental and social sustainability criteria and standards (with the exception of selected projects requiring derogation). Moreover, EBRD has been:

- reporting on environmental and social issues and challenges on projects and its region of operations in annual Sustainability Reports;
- an active contributor to the United Nations’ sustainable development agenda and programme through Rio, Johannesburg and Rio +20 processes. Specifically for Rio +20, EBRD prepared a publication: “20 years of Investing in the Green Economy”[9], summarising the Bank’s activities in relation to Green Economy Transition during its first 20 years of operation; and
- providing TC assignments promoting high environmental standards, sustainable development and greening of the economies in its countries of operations.

The Environmental and Social Policy (ESP) of the Bank (see BDS14-091 (Final)) contains comprehensive and appropriate safeguards for integrating human well-being, social inclusion and equitable distribution of costs and sharing of benefits into projects. Furthermore the ESP:

- acknowledges that environmental and social sustainability is a fundamental aspect of achieving outcomes consistent with the Bank’s transition mandate;
- requires projects to pursue the highest environmental standards;
- recognises that projects that foster environmental and social sustainability rank among the highest priorities of the Bank’s activities; and
- sets a strategic goal to promote projects with high environmental and social benefits.

In line with the ESP, the Bank has developed advanced operational approaches to scale-up its sustainable energy activity under the Sustainable Energy Initiative (SEI) and is developing its activity in water and materials efficiency under its Sustainable Resource Initiative (SRI). The Bank has also introduced environmental sustainability criteria in the current MEI, Transport and Energy sector strategies.

The Bank established the Environmental Sustainability Bond Programme (ESBP) to fund its

[9] http://www.ebrd.com/documents/comms-and-bis/pdf-20-years-of-investing-in-the-green-economy.pdf

Green Project Portfolio (GPP) and to broaden its sources of funding, reflecting investor demand for this type of bond product. From 2010 to end 2014, the Bank issued 19 bonds under the ESBP for a total of €530 million. In 2014, the Bank issued seven unlisted Environmental Sustainability Bonds denominated in Australian dollars, Brazilian real, New Zealand dollars and Turkish lira. As at end 2014, the GPP included 313 loans across 25 countries totalling €4.9 billion of which €3 billion was drawn down. It is relevant to note that the criteria used to define the GPP are different from those used in defining the Bank's climate financing activity. In particular the GPP excludes projects where less than 90 per cent of the financing is directed at environmental goals while the Bank identifies specific environmental components of larger projects. This is in line with the climate change mitigation methodology developed by the MDBs and used in their annual joint report and reflects the fact that a large number of environmental investments are a component of a larger project . Accordingly, the Bank has a thorough analytic approach to ensure that only the financing related to the environmental component of a project is counted.

3.1.2 Environmental action and transition impact

Over the years, the importance awarded to aspects of the green economy has increased, reflecting both the priorities of EBRD countries of operations, as well as growing attention to environmental sustainability at international level leading to the adoption of the Sustainable Development Goals. Beyond issues covered in the Kyoto Protocol and in climate change negotiations, there is increasing concern and priority to address issues related to urban congestion and airborne pollutants, water pollution and water scarcity, waste management and the circular economy[10].

The EBRD is well recognised for its pioneering work in scaling-up energy efficiency financing and for its ability to work with the private sector in this area. The EBRD is also recognised for linking its strong operational delivery capacity with the promotion of local and national regulations that put climate change and environmental considerations at the heart of the economic process (e.g. through water and energy tariff reforms, CO_2 markets, elimination of fossil fuel subsidies).

Reflecting this growing emphasis, the Bank has developed over the years a set of documents linking transition impact and environment, including, where appropriate, changes in the project's assessment methodology. These documents include:

- *Considering Environmental and Sustainability Objectives in Assessing Project Transition Impact* (CS/FO/08-13);
- *Transition Impact of Projects Promoting Energy Efficiency and Lowering Carbon Emissions* (CS/FO/10-16);
- The special report on 'The Low Carbon Transition' officially presented at the 2011 Annual Meeting in Astana; and
- *Case Studies on Integrating Climate Change Mitigation Issues into the Transition Impact Methodology* (CS/FO/12-07).

The above documents reflect that modern and well-functioning market economies incorporate

[10] A *circular* economy is an alternative to a traditional *linear* economy (make, use, dispose) in which resources are used for as long as possible, extracting the maximum value from them whilst in use, then recovering and regenerating products and materials at the end of each service life.

climate change and environmental considerations and externalities in decision making processes and turn them into a driver for growth and competitiveness. The promotion of environmentally sound and sustainable development therefore goes hand in hand with other aspects of the transition process.

Beyond the overarching framework for transition impact assessment and environmental policy outlined in section 3.1.1, the Bank has developed and implemented over the years a specific approach to reflect the transition impact of energy efficiency and climate change mitigation and has been mainstreaming these considerations in specific thematic and sectoral strategies.

The paper on *Transition Impact of Projects Promoting Energy Efficiency and Lowering Carbon Emissions* (CS/FO/10-16) highlighted the key transition challenges in moving towards an energy efficient and low carbon economy and explained how the Bank's transition impact assessment methodology captures these aspects. Among other findings and recommendations, the paper mentioned that: "while the Bank's standard methodological framework for transition impact assessment applies, the area of climate change also has specific features that will need to be considered" including "the importance of rapid results and physical outcomes, of government interventions and of project design and context (in terms of innovation and the complementarity between investments, policies and regulatory and behavioural change".

Climate change mitigation and, to a lesser extent, climate change adaptation and wider environmental considerations already underpin a range of Bank operations. This progressive reorientation is also visible in the launch of specific initiatives and the selection of key priorities for sectoral and country strategies. This is noticeably the case in the *Sustainable Resource Initiative* (BDS 13-052 (Final)), the environmental strategic initiative of the Bank which includes the *Sustainable Energy Initiative*. Sector strategies also reflect an increased focus on the environmental dimension as in the case of the *Municipal and Environmental Infrastructure Sector Strategy* (BDS12-126) and of other sectoral strategies including Transport, Agribusiness and Energy. For example, the *2013 Transport Strategy* (BDS 13-205) states that the Bank's strategy will be to support sustainable transport, which applies energy efficient technologies and standards and encourages lower-emission modes to reduce energy consumption in the sector. This strategy also contains an analysis of other environmental areas related to transport such as climate change adaptation, biodiversity, noise and local pollutants.

Environmental goods and services are particularly exposed to different forms of market failures, in comparison with other categories of goods and services available to societies[11]. In the absence of correct market signals, private agents will be deterred to invest in certain areas where returns are low. Innovation suffers from other market failures such as network, early mover, and capital market failures. These need to be overcome to allow transition to happen. Also, governments will generally be reluctant to approve and enforce an environmental regulation until they are convinced of the practical, technical and economic benefits.

[11] A number of major reports have examined market failures related to climate change and other environmental sectors. With respect to climate change, very good summaries can be found in the IPPC assessment reports and in Nicholas Stern's flagship publication: "The Economics of Climate Change. The Stern Review", 2006. A recent and updated list of market failures was provided by Lord Stern in his new book "Why are we waiting?. The logic, urgency and promise of tackling climate change", 2015.

Considering the extent and impact of market failures in the environmental area, the Bank can act in two major ways. The first is to pursue an active policy dialogue and reform agenda to address these market failures. This involves working with governments to improve the policy and legal environments, enabling markets to estimate costs and benefits correctly and hence creating a level playing field for all technologies and practices. This should involve the elimination of subsidies to fossil fuels and consideration of carbon pricing measures either through market mechanisms or through a tax.

The second is to use grants and other economic incentives to play a compensating role, recognising that the reforms needed for the resolution of these market failures may take long and require financial support to be effective. EBRD's role is to help ensure that incentives are only used if they are an efficient way of correcting markets to ensure a level playing field.

The "smart" utilisation of concessional funds, including those that are available from multilateral sources[12] is compatible with current transition impact methodology, as long as they are consistent with the *New Guidelines for the use of non-TC grants in EBRD operations* (SGS15-074) and do not undermine the development of market-based price signals. When properly designed, concessional funding supports innovative environmental investment growth in key sectors and countries and enables the Bank to provide new products to its clients and develop new markets. This is in line with the efforts made by many other developing regions in the world which see the low carbon and green economy transition as a source of long-term comparative advantage and competitiveness[13]. As in other cases of successful transition, environmental transition is best promoted through a combination of investment, technical assistance, institutional reform and policy dialogue.

3.2 EBRD environmental financing track record

The GET approach builds upon an EBRD record of transition and operational delivery over the past 10 years starting with the launch of the Sustainable Energy Initiative in 2006 as part of the approval of the CRR3. Since then, the EBRD significantly scaled up its climate finance activity with SEI financing more than quadrupling from €748 million in 2006 to over €3 billion in 2014. Building on the experience and track record of the SEI, the EBRD introduced the Sustainable Resource Initiative in 2013 applying the business model of the SEI of combining policy, investment and technical assistance to water efficiency and waste minimisation.

The cumulative SRI/SEI track record as of mid-June 2015 is:

- EBRD financing of **€17.2 billion** (**€18.3 billion** as at end August 2015);
- **977 projects** (**993 projects** as at end August 2015);

[12] Notably European Union Funds (e.g. Regional Platforms for External Assistance, Structural and Cohesion Funds, the Instrument for Pre-Accession), the Global Environmental Facility, the Climate Investment Funds and the recent Green Climate Fund can play a key role in the funding of climate change mitigation and adaptation measures in EBRD countries of operations.

[13] The prime example of this approach is China, which through its Five Year Plans and other key strategies has placed high-tech and environment protection industries at the heart of its development agenda. Other growing emerging market economies such as India, Brazil, South Africa and Mexico have adopted a similar path particularly in the field of renewable energies, and are in fact becoming regional or global hubs in the field, creating both internal growth as well as export capacity.

- total project value of **€94.6 billion**;
- **SRI water and materials efficiency** related ABI of **€821 million** in 2013 and 2014; and
- **€602 million** invested since 2011 in **climate resilience/adaptation** measures in 99 Bank projects.

The average SRI/SEI share in ABI over the past five years (2010-14) was 28% with a low of 24% in 2010 and a high of 34% in 2014.

Cumulative SEI/SRI activity has been well distributed across activity areas both in terms of ABI and of number of operations. Key activity areas include:

- **Direct energy efficiency financing for industrial and corporate** clients covering large energy intensive industries, such as steel, glass and cement production, agribusiness and large transport infrastructure, such as railways. Cumulative EBRD financing in this area reached €4.6 billion for 337 projects.
- **Sustainable Energy Financing Facilities** involving credit lines for on-lending to energy efficiency projects in SMEs and buildings and for small scale renewable energy generation. Cumulative EBRD financing in this area reached €3 billion for 232 projects.
- **Supply side energy efficiency** supporting energy efficiency enhancements for thermal power generation and for transmission and distribution with cumulative EBRD financing of €4.3 billion for 97 projects.
- Direct financing of **renewable energy** with cumulative EBRD financing of €3.15 billion for 97 projects.
- **Municipal infrastructure energy efficiency** related to district heating, water and wastewater and public transport network efficiency. Cumulative EBRD financing in this area reached €2.1 billion for 214 projects.
- **Climate change adaptation** and SRI projects started in 2013 with cumulative EBRD financing of €603 million for 99 projects.

SEI/SRI activity has also been well distributed in regional terms. Cumulative financing has reached between €2.9 and 3.1 billion in South-eastern Europe, Eastern Europe and Caucasus, Russia and Central Europe and Baltics, with cumulative financing in Turkey rising to €2.5 billion since the start of operations in 2009. The highest cumulative number of SEI/SRI operations has been in South-eastern Europe and in Eastern Europe and the Caucasus at around 250 each. The number of operations in Central Asia reached 109, the same as in Central Europe and Baltics. In terms of cumulative carbon emissions reductions, the regions with the largest reductions are Russia, Eastern Europe and the Caucasus (reflecting in particular strong activity in Ukraine) and Central Europe and Baltics.

3.3 Policy dialogue activity and results

Reflecting the range of market failures noted in section 3.1.2, policy dialogue was recognised at an early stage as a core component of the SEI. This led to the first hiring of a policy dedicated staff in a banking team and to the build-up of a policy capacity initially focused on energy efficiency and renewable energy in the context of SEI. Key areas of policy work have covered a wide range of areas from national-level sustainable energy strategies and renewable energy legislation to carbon market development, buildings energy efficiency legislation and regulations, Energy Service Company (ESCO) legislation and adaptation to climate change.

The SEI policy work has led to important results. For example in 2014, policy work in this

area led to the strengthening of the investment framework for renewable energy in four countries (Belarus, Morocco, Kazakhstan and Turkey) and to the adoption of specific measures to enable more private sector participation in buildings energy efficiency through ESCOs and Energy Performance Contracting in five countries (Bulgaria, Lithuania, Russia, Serbia, and Ukraine). Furthermore, EBRD policy work contributed to the development of specific laws and regulations governing energy efficiency in buildings in five countries (Albania, Kosovo, Moldova, Serbia, and Ukraine). Specific results were also achieved in the development of carbon markets in Kazakhstan and Russia.

With the introduction of the SRI in 2013, the Bank's 'sustainability' related policy dialogue has started to cover water and materials efficiency issues. For example, the Bank's work in Turkey has recently led to the development of glass recycling in major urban centres. Furthermore, the Bank is currently exploring resource efficiency and climate resilience policy gaps relating to buildings in SEMED.

3.4 Impact and performance

Considering the magnitude of operations and financing involved, the Bank has developed a specific Monitoring, Reporting and Verification (MRV) system to: (i) identify the environmental component of each project in accordance with a set of precise internal standards; (ii) quantify the financing which can be directly related to the environmental project component; (iii) set up the baseline scenario to assess the impact of the project after implementation; and (iv) estimate the actual impact of the Bank's operations.

This MRV system feeds a dedicated management information system to track the overall impact of the Bank's activity in each area covered by the SRI including carbon emission reduction, renewable energy production, energy and water savings and waste reduction. This MRV provides detailed information on the implementation of this strategic theme and is closely integrated in the Bank's operational data systems to ensure data integrity and consistency. The MRV system also provides detailed information to individual banking teams to support their results management in this area. Finally, the data produced by the MRV system contributes annually to the joint MDB climate finance report, building on the close collaboration across MDBs to define common standards and reporting practices.

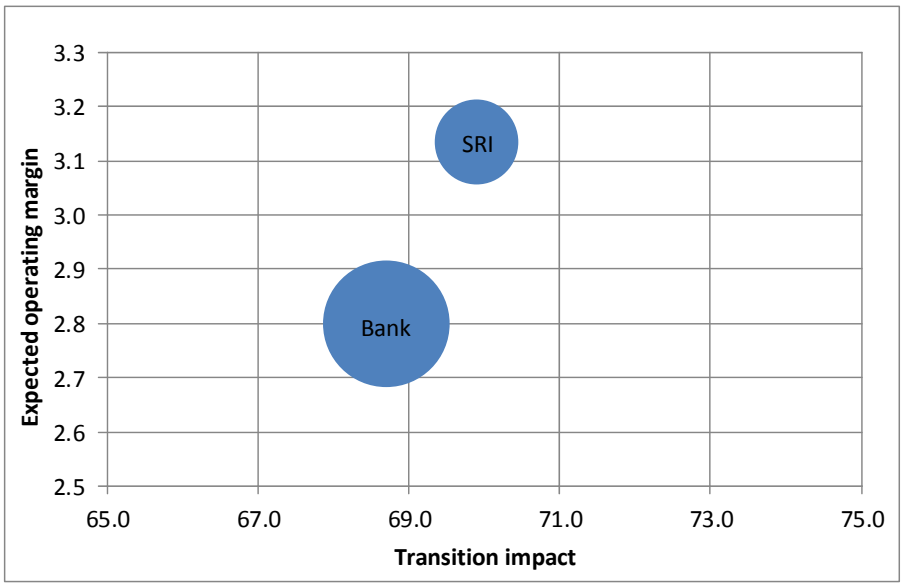
Based on this MRV system, cumulative results achieved since the launch of the Sustainable Energy Initiative are:

- carbon emissions reduction: **70 million tonnes / year**
- annual production of renewable energy: **60 million MWh/yr**
- estimated annual energy savings: **1.1 million TJ/yr (equiv. to 26 million toe/yr)**
- water savings: **10.5 million cubic meters/year**
- waste avoided: **390,000 tons/year**

Beyond these positive environmental impacts, the performance of the SEI/SRI was examined in the context of the SIP prioritisation work. This work included an analysis of the performance of operations across regions, sectors and strategic themes relative to their transition impact and financial indicators. This analysis examined performance on transition as measured by the Portfolio Transition Impact (PTI) of operating assets as of end-2014 against a financial performance indicator measured for debt by the average operating assets margin post-impairment.

Debt operating assets at the end of 2014 reached €20.3 billion, of which €9 billion, or 44%, correspond to SEI/SRI operating assets. As shown in Figure 4, the performance of SEI/SRI is higher on both transition impact and financial return fronts than the Bank's average.

Figure 5: Transition impact/debt financial return assessment of SEI/SRI



Notes: Bubble size indicates operating assets as of Dec-2014.

The operating margin and potential transition impact figures corresponding to the "Bank" bubble reflect the Bank average as of 2014.

4. GREEN ECONOMY TRANSITION APPROACH

4.1 EBRD Green Economy Transition (GET) approach

The Green Economy concept has been attracting increased attention at international and national levels reflecting a growing awareness of the importance of environmental sustainability to sustainable economic growth. Climate events, growing evidence of water scarcity, food price volatility and the loss of biodiversity are all contributing to this rising awareness.

Reflecting this trend, a range of definitions have been put forward which all combine in different manners a balance of economic, natural and human capital. Examples of green economy definitions are provided in Annex 1.

It is interesting to note that in many definitions and practical descriptions of the green economy, two elements appear frequently with a strong resonance with the EBRD:

- the concept of a "transition" to a low carbon economy and green economy; and
- a strong emphasis on the need to establish enabling conditions for this transition including policies, regulations, incentives, international markets, legal infrastructure and trade and aid protocols.

The Sustainable Development Goals (SDGs) reflect a shared global vision of progress to transform societies and economies towards a safe, equitable and sustainable future. The goals of sustainable consumption and production, sustainable energy and combating climate change have been identified as the three most transformational challenges to relieve the overall anthropogenic pressures on the planet and its natural systems. The GET approach supports the EBRD countries of operations to implement the SDGs in the following areas:

- SDG6: ensuring availability and sustainable management of water and sanitation;
- SDG7: access to affordable, reliable, sustainable, and modern energy;
- SDG8: promoting sustained, inclusive and sustainable economic growth through improving resource efficiency in consumption and production;
- SDG9: redevelopment of industries and infrastructure with increased resource use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes;
- SDG12: promoting sustainable consumption and production patterns through supporting progress on energy efficiency, renewable energy generation and on waste management and recycling; and
- SDG13: combatting climate change.

Aiming to address the needs and priorities of its countries of operations and building on its business model and strong track-record, the EBRD can further increase its activity and impact through a **Green Economy Transition approach**. The Green Economy Transition (GET) approach would enable the scaling up of the Bank's climate financing and resource efficiency activities and broaden the scope of the Bank's activities to include natural capital resilience and restoration.

The GET approach will be implemented in the EBRD region of operations based on its transition and client-driven business model of the EBRD and in line with its operating principles of transition, sound banking and additionality. Accordingly, activities which do not meet the operating principles of the Bank will not be pursued.

Based on an examination of the range of green economy definitions, and taking into account its mandate and operating principles, the EBRD definition of the Green Economy could be as follows:

> A Green Economy is a market economy in which public and private investments are made with a specific concern to minimise the impact of economic activity on the environment and where market failures are addressed through improved policy and legal frameworks aiming at accounting systematically for the inherent value of services provided by nature, at managing related risks and at catalysing innovation.

Through the SEI, and subsequently the SRI, the Bank is already active in a number of operational areas of the Green Economy described in section 3.2. Beyond these areas which are mostly related to climate change, a shift to a green economy approach could involve activities in pollution prevention and control (including environmental remediation), sustainable agriculture and low-carbon/clean manufacturing.

The Bank would continue to ensure that all projects are in compliance with the Environmental and Social Policy (see section 3.1.1) and are designed to meet EU standards within a reasonable period of time. The Bank would also report on all projects with emissions above 25k CO2 emissions.

Section 5.3 provides information on the environmental activities of other MDBs. While the EBRD has developed a specific competence in terms of energy efficiency and the mobilisation of private finance at project level, its comparative advantage is described in a more relevant manner in relation to its approach than in relation to specific sectors, technical areas or public vs private intervention. Accordingly, the specific offer of the EBRD in the context of the GET approach builds on:

- the operating principles of transition impact, sound banking and additionality which are unique to EBRD;
- the private sector oriented business model of the EBRD which contributes to diversified channels of implementation and to the mobilisation of private sector managerial, technical and financial resources; and
- a policy dialogue capacity based on concrete project experience with the private sector, as strongly illustrated for example in the case of the SEFFs.

4.2 GET operations: drivers of incremental activity

Incremental GET activity beyond SRI would be driven by the following factors:

- ramp up of existing activities through the recognition of scale effect on systemic impact;
- enhanced innovation;
- a broadening of the environmental dimension; and
- an active use of both private and public channels of transition impact within the Bank's mandate constraints.

It is important to note that incremental activity will not be driven solely by an expansion in the scope of green activities, but will include only those activities which are both green and within the operating principles of the EBRD.

4.2.1 Ramp up of existing activities

The Bank has established a best practice approach in many areas including renewable energy project financing, water and wastewater treatment, solid waste management, district heating rehabilitation and the Sustainable Energy Financing Facilities (SEFFs) through local banks. The new *Special Study on SEFFs* (EvD ID PE14-594S) concludes that its 'main finding… is that the SEFF tool has been very positive to date in terms of meeting its operational objectives, contributing to intended transition impact benefits'. This expertise can be applied to repeat projects in pursuit of increased transition impact applying the methodology described in section 5.1.1. The potential for incremental activity under GET reflecting pent-up demand for Bank investments include:

- Renewable energy development in the power and industrial sector
- Power rehabilitation including
    - fuel-switching

  - large-scale hydro rehabilitation
- Municipal finance in:
  - energy networks
  - urban transport
  - upgrade of water and wastewater systems
  - water management
  - solid waste management
- Industrial energy and resource efficiency across all sectors
- Infrastructure finance including:
  - energy transmission networks
  - railways
  - scaling up operations with viable state owned corporates in energy efficiency in energy intensive industries

There is potential for increased renewable energy financing in the EBRD regions of operations. For instance, there is significant potential for solar energy in SEMED where the Bank can play an important role in supporting both the transition to a lower carbon economy and a higher share of private sector power generation. With an established track record in financing renewable energy technologies, repeat renewable energy projects across the region of operations of the EBRD can support the transition from coal to low carbon energy and deliver on energy security as well as providing the basis to scale up climate benefits.

Sustainable Energy Financing Facilities are often initiated with the launch of a pilot facility to prove the concept and cautiously test the size of activity. Follow-on projects are then important to address the growth of the sustainable energy market, and with a proven track record and experience, the number and size of such SEFFs can be increased over time to reach a greater number of SMEs.

The recognition of the relevance of scale to systemic impact and the regulation of scale through the transition impact methodology are described in section 5.1.1.

4.2.2 Enhanced innovation

There are a number of technologies with significant potential environmental benefits which are currently not deployed in the EBRD region and specific high standard equipment and materials with a negligible market penetration relative to overall potential. Accordingly, a focussed technology transfer approach to stimulate demand for such measures as well as to bring suppliers of such technologies and equipment into new markets is very important.

In order to drive such technology transfer, there is a need for capacity building and education of consumers, building linkages with suppliers and targeted incentives to change behaviour and mitigate the initial impact of higher cost measures and design. This leads to the development of new business areas involving transition impact through the introduction of innovative technologies.

This work builds on the experience acquired with the FINTECC (Finance and Technology Transfer Centre for Climate Change) Programme developed by the Bank and supported by the Global Environment Facility (GEF) and the EBRD's Shareholder Special Fund (SSF). FINTECC offers a combination of policy dialogue, technical assistance and incentive grants to demonstrate the viability of technologies supporting climate change mitigation and

adaptation. FINTECC is running successfully in ETCs and SEMED, and is planned to be extended to Ukraine this year. Eleven projects have benefited from FINTECC support with all of these projects implementing technologies new to their market. The FINTECC model can be rolled out to other countries and sectors, such as modern efficient lighting.

The Bank is working with the FAO to review the performance of irrigation systems in SEMED and Turkey. In water stressed countries, the optimisation of water use in the agriculture sector is key to improving the resilience of water systems. As a result of this work, the EBRD could finance water efficiency technologies on the demand side and an upgrade of irrigation networks on the supply side.

4.2.3 Broadening of environmental dimension

Environmental projects would be pursued under GET to promote the sustainability of natural resources use, to support pollution prevention and to avoid/reduce the degradation of ecosystems. Projects in this area could include increase in water supply, improved resilience of groundwater and surface water resources, sustainable agriculture projects and environmental remediation of contaminated sites.

The Bank could also consider the financing of Environmental and Social Action Plans to accelerate and/or move beyond minimum regulatory compliance to achieve discontinuation or reduction of pollution and mitigation of contingent risks. This would build on the work already being done on Environmental and Social Action Plans (ESAP) by identifying a specific investment scope and by conducting the capital investment appraisal.

It is important to emphasise that incremental activity in this area would have to be developed within the operating principles of the EBRD. Accordingly, activities in the above operational areas which do not meet the operating principles of the Bank would not be pursued.

4.2.4 Active use of private and public delivery channels

A flexible approach to the determination of financing channels would allow the Bank to address green economy opportunities through public channels of transition impact. This would be useful, for example, in the scaling up of buildings energy efficiency financing, a high priority objective. Buildings are responsible for one third of CO2 emissions globally but due to the fragmented nature of the market and the split incentives that exist in their ownership or in budgeting and control of public assets, remain difficult to be financed at scale. Similarly, significant opportunities exist to improve efficiency and quality parameters of water supply systems and waste water treatment networks. This is particularly relevant in water stressed areas of the EBRD region facing increasing vulnerability to the effects of climate change. Under GET, the EBRD could use a range of both public and private financing channels and capacity building tools to support innovative financial structures and higher risk taking. The following operational activities could be envisaged using these public channels of transition impact:

- Increase scope of SEFFs to cover investments in:
    - residential energy efficiency
    - resource efficiency
    - climate resilience
- Targeted operations with state development or state owned banks in support of specific

green financing
- Direct support for sub-sovereign budgets with defined use of proceeds for example for improving efficiency and resilience of water and waste water infrastructure
- Direct sovereign operations for large-scale programmes fulfilling GET objectives
- Development of technical assistance to local investors (including national development banks) to support the development and deployment of advanced climate mitigation and resilience technologies.

In the context of COP21, countries are preparing National Appropriate Mitigation Action plans to outline specific activities to meet carbon emission reduction targets. The Bank could consider developing arrangements at the country level in order to finance part of this activity.

The EBRD could develop and finance programmes targeting the upgrade of public buildings focused on the integration of energy efficiency/renewable energy technologies and environmental improvements. These programmes could be based on new blended financing instruments integrating EBRD finance with structural fund or bilateral/multilateral climate finance support (e.g., the Green Climate Fund). The financing counterpart could be the public sector itself or state owned banks, with the EBRD delivering resource efficiency audits and implementation support to deliver high quality building upgrades supported with policy dialogue on building performance standards.

The impact of potential incremental activity through public channels is expected to be limited and in all cases to remain contained with a marginal impact on the Bank portfolio ratio. The current private sector share of SRI activity stands around 2/3. Even assuming that the ratio of GET activity to EBRD activity would rise to 40% and that the private sector ratio of GET activity would decrease by 10%, the portfolio ratio impact would be 4%. Given that the current Bank portfolio ratio stands at mid-June 2015 at 70%, even at this upper end of impact, the Bank ratio would remain comfortably within the policy limit of 60%.

4.2.5 GET policy dialogue

In support of the GET, the EBRD would deepen its policy dialogue. In addition to further enhancing the Bank's transition impact by addressing the market failures discussed above and improving the quality of the legal environment, these activities would also further increase the Bank's physical impact. This would be achieved by:

- Continuing to deliver policy dialogue that contributes to an enabling environment for sustainable resource investments such as:
    - national action plans for sustainable energy, water and materials efficiency; and
    - targeted sustainable resource related legislative and regulatory reform (ESCOs, buildings energy efficiency, carbon markets, water efficiency, waste management).
- Expanding the coverage of current policy dialogue to include:
    - national sectoral environmental action plans;
    - policy roadmaps and provision of market assessments to outline alternative development paths for specific industry sectors (such as cement, steel, CCS);
    - specific sustainability action plans at city level;
    - improvements in the legal environments targeted on specific sectors such as water management, pricing and full cost recovery, environmental performance, use of

natural resources and resilience of ecosystems; and
- internalising externalities and levelling the playing field for clean technologies such as budgetary public expenditure activities (payment for environmental services) and regulatory activities (direct regulation, environmental taxes, user charges and tradable permit systems).

4.3 GET operations: incremental financing

The incremental share of GET ABI related to the set of additional activities described in section 4.2 is estimated as follows:

- under the GET approach, GET ABI as a proportion of total EBRD ABI would aim to reach a share of 40% by 2020 up from the 25% target during the CRR4 period. This reflects an intended direction subject to the application of the operating principles of the EBRD, to market conditions and to the availability of internal resources to achieve this result;
- this would represent an increase of EBRD green financing from an average of €2.5 billion during the period 2010 to 2014 to around €4 billion by the end of the current SCF period in 2020;
- and
- incremental GET activity could rise gradually from an estimated €400 million in 2016 to close to €1 billion by the end of the first SIP period in 2018. The rise of incremental GET financing will reflect the timing and volume of additional resources (see section 5.2).

Scale recognition is expected to be the main driver of incremental financing in the short term. A more active use of public channels of transition impact will take longer to impact activity levels due to generally longer project preparation. The contribution of sector innovation and the environmental dimension will build up over time contributing to incremental financing over the medium term.

Over the five-year Strategy and Capital Framework period (2016-2020), and based on the above GET share assumptions, EBRD activities under its Green Economy Transition approach would lead to:

- EBRD GET financing of up to **€18 billion**;
- based on historical leverage of EBRD climate finance, these would mobilise another €60 billion for a total project value up to **€78 billion**; and
- driven by the EBRD business model, between half and two-thirds of GET financing would be expected to be in the **private sector**.

The achievement of such results assumes: (i) the full internalisation of the GET in the transition impact methodology as described in section 5.1; (ii) a systematic integration of sustainability in country strategies; (iii) appropriate resources for incremental transactions and technical skills; and (iv) continued access to multilateral and bilateral funds supporting policy and technical cooperation activities.

Operational and resource aspects of the Green Economy Transition are being examined as a major component of the Bank's first Strategy Implementation Plan (SIP) for the period 2016-18 with an indicative resource envelope for the GET being provided at the Executive Session on the SIP on 22 July 2015. This is consistent with the directions set in the SCF and the

guidance provided by shareholders at the Annual Meeting in Tbilisi. It is also consistent with the new planning process of the EBRD introducing the SCF and the SIP with a clear sequencing of strategic directions, operational prioritisation and resource allocation.

Increased scale under GET would also deliver additional benefits to the environment, such as improvements in local air quality and enhanced climate resilience; to clients, such as increased competitiveness and risk mitigation against energy cost movements; and to governments, such as reduced energy import costs and increased energy security.

The incremental GET activity is expected to be broadly distributed across the Bank's regions of operations with activity size and composition reflecting the Assessment of Transition Challenges in individual country strategies (see section 5.1.1) and specific country needs and priorities. The GET approach will be implemented within the current policy framework of the EBRD which includes its operating principles and the policy on graduation. Certain GET activities such as renewable energy development are expected to be pursued across the area of operations of the EBRD as the contribution from non-hydro renewable energy sources to energy supply in most of the EBRD region is still very low. Energy efficiency activities are also expected to be pursued across most countries of operations at differentiated levels reflecting the energy intensity of their economy and their policy framework. Building on its track record, activities in water supply, wastewater treatment, and solid waste management are expected to remain significant. Climate resilience projects will tend to be located in the Caucasus, Central Asia, SEMED and Turkey which are more exposed to the effects of climate change in particular in respect to water availability and energy and transport infrastructure. Other GET activities, such as low carbon and clean manufacturing are expected to be more concentrated in larger more diversified economies. Pollution prevention and control activities will tend to be driven by specific project opportunities.

Further deepening and broadening its engagement in the Green Economy Transition would substantially enhance the physical impact of the Bank's operations in terms of reduction of carbon emissions and water and industrial materials savings. The exact impact will depend on a number of factors, including the geographic and sectoral composition of incremental investments as well as the impact of repeat projects and policy work.

5. IMPLEMENTATION

5.1 Transition impact methodology

Sustainability has been taken into account in assessing the transition impact of projects since the concept of transition was first formalised in the mid-1990s. Accordingly, the GET approach is proposed within the existing concept of transition. During the CRR3 period the existing practices were clarified in the paper "*Considering Environmental and Sustainability Objectives in Assessing Project Transition Impact* (CS/FO/08-13)" and further developed in the Besley Report (2010). These documents recognised the need for markets to better internalise environmental externalities and hence highlighted how the environmental component in the mandate of the EBRD, as reflected in the Agreement Establishing the Bank, should be addressed through the transition impact lens. Since then, there has been significant work to mainstream environmental considerations in the Bank's operations.

Nevertheless, certain implications of the concept, though understood and agreed in principle, have been difficult to implement in practice. These have been identified repeatedly, e.g. in the

Report of the Task Force on Results Frameworks (CS/FO/12-34), and relate in particular to:

- the question of "scale" (e.g., the demonstration effects from repeat projects);
- how to reflect the beneficial "physical impact" (or outcome) of projects; and
- the role of public sector channels in achieving transition impact.

The following sets out an approach to implementing the existing transition impact methodology in these three areas.

5.1.1. Country diagnostics and strategies, ATCs and the relevance of scale

Country diagnostics and strategies constitute optimal tools to ensure that EBRD projects are related to systemic impact on the transition to market economies and are in line with identified transition challenges, with policy reform objectives, and with the strategic directions of the Bank as reflected in the Strategic Capital Framework. They also offer the necessary analysis and context within which to take a portfolio view of the order of magnitude of activities required to support objectives, such as e.g. the role of critical mass in encouraging sustainable behaviours and technologies.

Building on the above enhanced role of country strategies, the proposed process would have the following steps:

- Step 1: country diagnostics based on an enhanced Assessment of Transition Challenges (ATCs) including the GET dimension;
- Step 2: articulation of transition priorities based on country diagnostics, transition gaps and formulation of policy dialogue and investment areas for each country strategy priority. The scale of GET activities and related policy changes required to create systemic change in the sector, with a focus on market structure supporting efficient resource allocation, would be determined reflecting the nature and magnitude of ATCs; and
- Step 3: the transition assessment of projects will take into account their fit with the priorities and their contribution to reaching the broader sector/country level objectives set out in the country strategies. The transition impact assessment methodology will continue to be based on the existing seven transition impact components, including testing for red flags related to undesirable project characteristics (negative transition impact).

In relation to Step 1, work is currently on-going to enhance country diagnostics that identify the right set of priorities to drive, define and assess the activities of the Bank. The aim is to provide the strategic and process underpinnings to:

- develop the links between country diagnostics, ATCs and the formulation of country strategies;
- design investments and policy engagements based on the priorities identified in country strategies;
- ensure that project transition impact assessments capture these transition needs and priorities; and
- enhance transparency and efficiency.

Better upfront diagnostics to identify transition priorities will include analyses of

environmental challenges. The sector-level ATCs will similarly highlight relevant gaps in the functioning of markets (see also section 5.1.2).

In Step 2, and based on these analyses, all country strategies will assess priorities for investment and policy interventions. While the ATCs of the GET dimension will be made systematically for each country, the priority, scope and content of GET activities within each country strategy will be determined reflecting the magnitude of the transition gaps and the ability for Bank policy and investment activities needed to tackle them. Individual projects will then be tested for closeness of fit to such priority areas, creating incentives for resources to be focused on key priorities in the country. Such guidance on investment and policy engagements is an evolved version of the "integrated approach" now utilised to leverage activity in certain areas, to achieve a more systematic and balanced result.

Scale and the need for critical mass would also be addressed through country strategies and the identification of investment priorities. Achieving systemic impact often requires substantial changes in how markets operate and the Bank may need to be involved in several projects to substantiate the demonstration effect, for example, of new technologies or market practices. This argument is particularly compelling for projects that reduce greenhouse gas (GHG) emissions, which represent 'global goods'. Such projects contribute to reducing the risk of future damages related to climate change, including to the functioning of market economies, and play an important role in establishing the foundations for future regimes around GHG emissions, either based on markets or on regulations. Under the GET approach, transition assessments will recognise the global nature of the material impact of such projects, within a context of internationally-coordinated efforts to reshape markets in order to reduce GHGs, and policy engagements will strengthen the overall impact of such projects.

In Step 3, individual projects and their accompanying policy dialogue activities will be assessed by looking at how they fit with the corresponding country strategy priorities. Specific benchmarks would be set at project level to provide guidance on results and for monitoring purposes, including their contribution to reaching the "take off" point, i.e. policy and market conditions, as well as critical mass of investment, after which markets can 'take over'.

5.1.2 Environmental physical impact

As mentioned above significant work has gone, over the past few years, into accounting appropriately for the transition impact of projects promoting energy efficiency and lowering carbon emissions (see CS/FO/10-16). This has been further strengthened by practice over the past five years.

Similar implementation work is underway in the context of the water and waste minimisation components of the Sustainable Resource Initiative (SRI). Since 2013, the Bank has pursued several tracks to refine the identification of SRI transition impact in line with section 5.1 of the SRI document (BDS13-52 Final). This work includes:

- the completion of the Assessments of Transition Challenges for water and waste in all countries of operations;
- the development of an accounting standard for SRI project eligibility and refining the approach by which the SRI is integrated in the existing transition impact framework following the Results Framework Task Force (CS/FO/12-34) report;

- the further definition of the transition benefits of materials efficiency and the formulation of a set of SRI physical impact indicators with the support of a team from University College London (UCL); and
- further work with UCL on developing an aggregate environmental impact indicator combining energy, water and materials efficiency.

Reflecting this work, material outcomes, for example related to local emissions reductions and water savings, can contribute significantly to TI when they bring clear demonstration effects or improve the competitive landscape. In order to demonstrably achieve such transition impact, projects with material outcomes need to also bring significant improvements on certain benchmarks:

- for demonstration effects, such benchmarks should include achieving high standards; and:
- for competition, they should reflect either an achievement in strengthening markets for externalities or in generating competition around best standards, generating a race-to-the-top and preventing market players from reducing environmental standards to cut costs in the absence of appropriate regulations.

This is in line with the existing TI methodology (*Case Studies on Integrating Climate Change Mitigation Issues into the Transition Impact Methodology* (CS/FO/12-07)). Such contributions to transition impact, resulting from material outcomes coupled with strong demonstration effects or increased competition, will be mainstreamed as a source of transition, rather than constitute an add-on to transition.

5.1.3 Public channels of transition impact

State intervention is necessary to set the policy and regulatory framework required for a well-functioning market economy, and the experience of the EBRD is that such intervention is best supported by an operational dialogue on specific projects which provide both an incentive and a support for investment and reform.[14] Lessons learned from operations have also shown that:

- public entities can provide in certain cases effective project implementation to achieve policy and investment objectives; and
- where the public sector lags behind, the private sector is unlikely to forge ahead dynamically with climate and environmental solutions and transition gaps will remain unaddressed.

Accordingly, the effective development of the GET approach would benefit from employing both private and public delivery channels, while respecting the relevant provisions in the AEB as well as the established policies and operating principles of the EBRD.

By working with public sector counterparts, the Bank can greatly enhance its capacity to

[14] As mentioned in the Report of the EBRD Results Framework Task Force (CS/FO/12-34), 'the defining characteristics of a (well-functioning) market economy are subject to interpretation, which can shift over time. One particularly important shift, embraced by the economics profession in the 2000s but foreshadowed in the EBRD's transition impact methodology since the mid-1990s (see *Transition Impact of Projects* (CS/FO/97-3)), concerns the role of the state. Whereas in the early 1990s the emphasis of transition was to roll back the state, the more modern interpretation emphasises the complementary roles of the state and the private sector (see EBRD Transition Report 2009 and Report by Besley et al (2010)).'

achieve critical mass in environmental and emissions reduction efforts. There are also opportunities in implementing advanced technical solutions in public sector buildings and related infrastructure. This is a recourse that has been widely used in the European Union as a means to achieve significant results and raise awareness among citizens and companies. Apart from the strategic engagement in policy dialogue and technical cooperation, which remain a crucial component of the Bank's reform agenda, the Bank will pursue environmental projects in public infrastructure with strong demonstration effect or where the collective physical material outcome is significant in terms of positive transition impact it achieves.

Significant opportunities for the GET are in assets owned by the public sector including for example municipal infrastructure in the water, wastewater, waste and public transport sectors, and in public buildings. Incremental GET activity through public channels would mostly involve municipal corporatized utilities for projects in the above sectors and to a lesser extent, public financial intermediaries.

In summary, the use of public channels of transition impact should take account of the following factors:

- The EBRD remains an institution which invests in private sector development and the public sector element of the GET related activities is only likely to have a marginal impact on the Bank's public/private ratio, with the Bank remaining within the established 60/40 portfolio ratio policy limit.
- Projects should generally be accompanied by policy engagement and a reform agenda with the environmental benefits of the project contributing to further its transition impact.
- Projects where the GET transition impacts are overshadowed by a significant negative transition impact in other areas would not be pursued.
- The Bank will take account of the environmental activities of other MDBs in defining the scope and specific nature of its own activity.

5.2 GET organisation and resources

The development and implementation of the GET approach would build on the SEI/SRI organisational structure which has allowed to scale-up the sustainability financing activities of the Bank in a significant manner over the past 10 years. Key elements of this structure include:

- the definition of a specific product range designed to respond to client demand across sectors and countries;
- tight integration of banking, technical, policy and TC management skills;
- development of capacity and expertise both in E2C2 team and in sector teams where there is sufficient scale including transport, municipal environmental infrastructure , power and energy utilities and manufacturing and services;
- cross-departmental collaboration between Banking, including the Energy Efficiency and Climate Change team (E2C2), the Environment and Sustainability Department (ESD), the Country Strategy and Economics department, the Legal Transition Team and other relevant departments to make use of the full range of the Bank's internal expertise and skills; and
- development of capacity in Resident Offices with current dedicated E2C2 resources in Ukraine, Istanbul and ETCs.

The E2C2 team fulfils a range of functions within this strategic delivery structure including:

- business development with E2C2 staff working directly with clients to identify and develop SRI projects/project components;
- country level market and thematic studies;
- management of energy/resource audits and technical due diligence;
- direct technical and financial analysis contribution to investment project preparation;
- project implementation support for achievement of resource efficiency objectives;
- policy dialogue including formulation of policy work programme and delivery of specific policy results at national, sectoral, municipal or project level;
- climate finance mobilisation at programme/project levels and carbon finance support to individual projects; and
- integrated delivery of TC package to SEFFs.

ESD provides support and assurance functions for the operational delivery of sustainability financing activities of the Bank, including:

- environmental and social appraisal of all projects to structure projects to meet the Bank's ESP and PRs and identify new environmental opportunities;
- monitoring project compliance and performance against ESP and PRs, including delivery on ESAP commitments;
- leading Environmental Fund management, currently comprising NDEP and E5P funds;
- assurance of compliance of green projects with established environmental and sustainability criteria; and
- production of annual sustainability reports on the Bank's activities.

Following the preliminary resource indication provided during the SIP Executive Session on 22 July 2015, specific resource aspects related to the GET will be presented and discussed in the context of the upcoming SIP 2016-2018. Main drivers for the GET resource requirements include the increased level of activity and skills requirements related to new activities.

5.3 Partnerships

As part of the development of its environmental activity, the EBRD has developed a broad range of partnerships including the United Nations, the EU, the IEA, other MDBs and donors (see section 5.4).

The Bank has established a range of specific partnerships with UN entities including with the FAO with which it is currently working on food security, bioenergy and irrigation matters (see section 4.2.2). The Bank has been particularly active with the UN Sustainable Energy for All (SE4All) which has established specific targets in terms of renewable energy, energy efficiency and energy access by 2030. The Bank has been working within UN SE4All with a particular emphasis on private sector financing and energy efficiency. The Bank is working closely with the United Nations Environment Programme Finance Initiative (UNEP FI) on the development of an alliance of energy efficiency financing banks to scale up energy efficiency financing. This included a successful Energy Efficiency Finance Forum in Istanbul in September 2015 gathering more than 50 financial institutions with representatives from the Turkey G20 Presidency and French COP21 Presidency. The Bank is also working

on technology transfer and innovation matters with the UN World Intellectual Property Organisation (WIPO) and on industrial energy efficiency with the UN Industrial Development Organisation (UNIDO).

The European Commission and the EBRD share objectives in pursuing the transition to a low carbon economy and in promoting green growth both inside and outside the EU. In pursuing these objectives, areas of common interest include the scaling-up of energy efficiency, the deployment of renewable energy and the strengthening of energy security. Collaboration with the European Commission has been strong in this area both at the policy and operational levels resulting in enhanced transition impact and increased financial flows for environmental sustainability, particularly in terms of climate change mitigation. In particular, the EU and the EBRD have developed a range of activities combining EU funds with EBRD investment and expertise which have achieved significant results to date in terms of energy savings and carbon emissions reduction. Implementation of the GET approach would provide additional partnership opportunities building on a strong track record of collaboration.

The Bank has established a close working relationship with the International Energy Agency (IEA). This includes work with FINTECC to develop and apply a methodology to track market penetration of climate technologies. Pilot countries for this work include Morocco, Kazakhstan and Belarus. The Bank has also worked with the IEA on the elaboration of technology pathways on energy efficiency management in large industry, public-private partnerships for energy efficiency finance and policies to deliver energy efficiency in transport systems.

The Bank will continue to work with other MDBs building on the active dialogue and relationships established in the context of its environmental and climate related activities. These relationships span sectors and countries and occur both at working and senior management levels. For example, the senior management responsible for climate activities for each MDB meet at least twice a year to discuss topics of common interest, to define specific tasks to be done jointly and to brief each other on current activities. Specific working groups have been formed on Environmental and Social Standards, GHG Accounting, Climate Finance Tracking, Sustainable Transport, Biodiversity Finance Tracking and Green Bonds with a focus on harmonising principles, practices and reporting as well as to issue joint statements on key topics. EBRD is also collaborating closely with the other MDBs on the implementation of the Climate Investment Funds.

A significant product of this collaboration has been the production over the past 4 years of a joint annual report on climate financing by the AfDB, ADB, EBRD, EIB, IADB and World Bank Group based on a commonly agreed methodology. This collaboration also covers the various initiatives which MDBs are considering in the run-up to COP21.

Beyond this collaboration on matters of common interest, MDBs have defined specific strategies and directions guiding the development of their environmental activities. As mentioned in section 2.2, some MDBs including the EBRD, are preparing specific proposals in the context of the SDGs and upcoming COP21 climate conference. The following paragraphs provide an overview of the environmental activity of the Asian Development Bank (ADB), the European Investment Bank (EIB), the Inter-American Development Bank (IDB) and the World Bank Group.

In the context of its 2020 strategy and following-up on the UN Conference on Sustainable

Development (Rio+20), the ADB defined its Environment Operational Directions for the period 2013-2020 which include:

- promoting a shift to sustainable infrastructure;
- investing in natural capital;
- strengthening environmental governance and management capacity; and
- responding to the climate change imperative.

It is interesting to note that beyond climate change mitigation and adaptation, the ADB is seeking to 'reverse the ongoing decline of natural capital to ensure that environmental goods and services can sustain future economic growth'. This includes biodiversity conservation and the promotion of sustainable land management practices.

The EIB is currently finalising its Climate Strategy. The draft document notes that 'immediate and coordinated action is crucial to overcome the challenges posed by climate change' and sets out the following three strategic areas of climate action focus:

- reinforcing the impact of its climate financing (which accounts for about 25% of EIB annual financing since 2011) through, for example, the development of innovative financing solutions, addressing market failures and seizing opportunities to attract private finance, including through the capital market;
- building resilience to climate change including risk screening at project level, increasing access to financing for adaptation projects and the expansion of the EIB adaptation portfolio; and
- integrating climate change considerations across all EIB standards, methods and processes.

The IDB has developed a specific Sustainability Framework which responds to the needs of its region of operations for environmental sustainability, climate change mitigation and adaptation and sustainable energy. This includes a range of projects in areas such as adaptation in agriculture, urban regeneration and resilience, cleaner production, disaster risk management, renewable energy, energy efficiency and mass transit. The Framework is supported by a robust safeguards system and by sector strategies and priorities in key areas such as agriculture and nature resource management, tourism, gender and diversity, and urban development and housing.

The World Bank Group has formulated an Environment Strategy for the period 2012-2020 which highlights a range of environmental issues to be addressed including the decline of biodiversity with serious implications on ecosystem goods and services, worsening land degradation driven by soil erosion, salinization and nutrient depletion, increasingly stressed water supplies and depleted fish stocks. World Bank support for the green agenda includes significant funding for biodiversity conservation and support for the development of laws for the sustainable management of natural resources. The World Bank has also developed significant activities in pollution management and environment-related health issues. In terms of climate change mitigation and adaptation, the World Bank has integrated climate change vulnerabilities across all IDA Country Assistance Strategies, scaled up IDA Analytic and Advisory Activities and assessed the potential climate change impact of all projects. The World Bank Group has also developed innovative financing tools to help developing countries including a range of carbon funds and facilities, and financial products to increase the carbon revenues of projects such as the Carbon Delivery Guarantee.

5.4 External funds

The formulation and implementation of specific funding strategies to support the development of the SEI and SRI have been a key determinant of the strong results achieved under these initiatives. The report on *Donor Climate Finance and EBRD Action: Building on Strong Partnerships* (SGS14-279) describes the determining role of external funds in supporting the transition impact and scaling-up of EBRD climate financing. The report shows that the environmental and climate area has been a major focus of donor support to the EBRD with cumulative funds contributed reaching close to €1 billion in the period from 2006 to 2014. The report also shows that further to significant contributions by the EU and bilateral donors, global funds such as the Climate Investment Funds (CIFs) and the Global Environment Facility (GEF) have become significant sources. The recent accreditation of the EBRD by the Green Climate Fund should further support this trend.

External funds support a broad range of policy dialogue, technical analysis, project preparation and implementation and capacity building activities which have been essential to the achievement of systemic change and to providing a broad range benefits from carbon emissions reduction to water savings and reduced air pollution. The availability of grants and concessional funding has also been important to address challenging market failures and mitigate risk. Building on the strong relationships established with bilateral donors supporting the green activities of the EBRD, with the EU and with multilateral funds, the Bank will pursue an active GET funding mobilisation approach.

External funds have also played a relevant role in addressing resource requirements in this area. For example, a significant share of the SRI development costs since the launch of the initiative has been carried by external funds. Going forward, as the activity is well established and part of the regular business of the Bank, positions need to be internalised while potentially continuing to fund incremental innovative positions with external funds, to the extent of their availability.

Building on the strong partnerships established with donors and multilateral funds in the context of SEI/SRI, the implementation of the GET approach will further develop these partnerships with the objective to expand transformational impact and scale up sustainability financing.

ANNEX 1

Green Economy Definitions

European Union
A 'green' economy can be understood as one in which environmental, economic and social policies and innovations enable society to use resources efficiently — enhancing human well-being in an inclusive manner, while maintaining the natural systems that sustain us.

OECD
The purpose of the Green Economy concept is *"…to foster economic growth and development, while ensuring that the earth's natural assets continue to provide the resources and environmental services on which our wellbeing relies."*

McKinsey
Green growth means promoting economic growth while reducing pollution and greenhouse gas emissions, minimising waste and inefficient use of natural resources, and maintaining biodiversity.

UNEP
Green economy results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.

World Resource Institute
While the prevailing economic growth model focuses on increasing GDP above all other goals, Green Economy promotes a triple bottom line: sustaining and advancing economic, environmental and social well-being.

Global Commission on the Economy and Climate
In most economies, there are a range of market, government and policy failures that can be corrected, as well as new technologies, business models and other options that countries at various stages of development can use to improve economic performance and climate outcomes together.

Global Green Growth Institute
In contrast to conventional development models that rely on the unsustainable depletion and destruction of natural resources, green growth is a coordinated advancement of economic growth, environmental sustainability, poverty reduction and social inclusion driven by the sustainable development and use of global resources.