SOUTH EAST EUROPE (SEE) 2030 STRATEGY
A REGIONAL ATTEMPT IN IMPLEMENTATION OF SDGs IN SEE

Development Financing in Green – Best Practices in SEE Region and Prospect of Developing New Joint Project Proposals

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Outline

- What is needed for financing the green transition?
- What is the role of banks?
- How is the EBF accelerating the green transition?
- What are some examples of best practices?
- What could be the lessons learned for SEE?

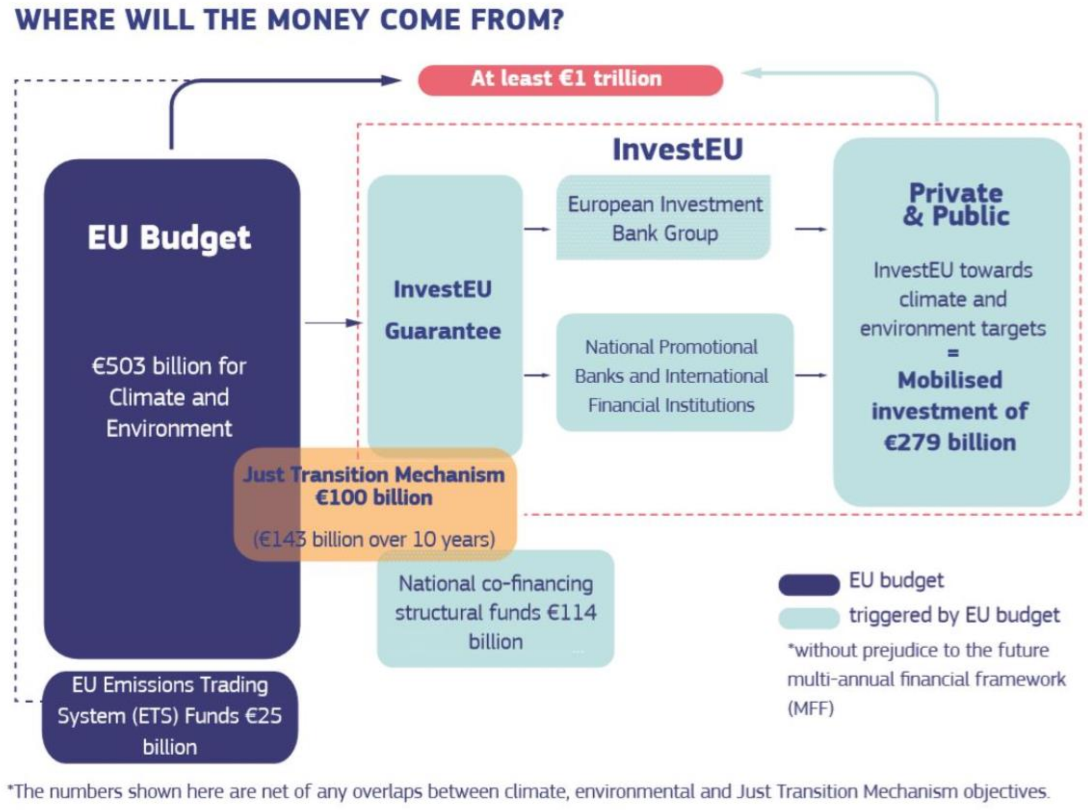
What is needed for financing the green transition? - Overview

- *The right economic incentives for undertaking "green" activities and for "greening" existing activities*
- *Public funding for the public externalities*
- *Corporates with the necessary skills and incentives*
- *Consumers and investors with the necessary skills and incentives*
- *Bank lending*
- *Capital markets*
- *A supporting ecosystem*
- *A sustainable finance framework that channels investment to green/greening purposes*

What is needed for financing the green transition? – Funding sources

How will the European Green Deal Investment Plan be financed?

How will the €1 trillion be mobilised?



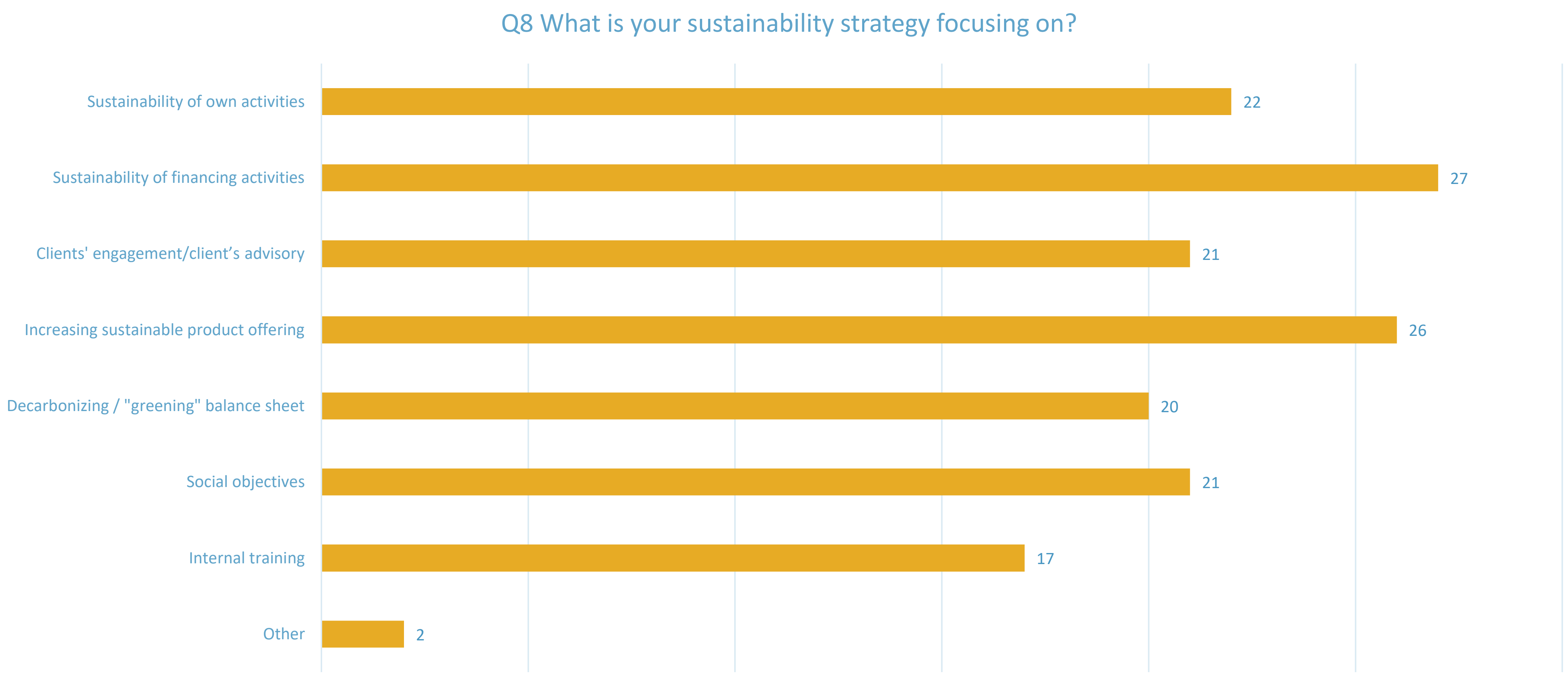
What is the role of banks?

- Adopting **SDG strategies** of their own
- Adopting **net zero targets** and other **collective frameworks**
- Greening **their own operations** as entities
- Managing their **climate-related risks**
- **Supporting** companies' and households' green transition through:
  - Bank lending with their own balance sheets
  - Green securitization
  - Intermediation of promotional funding
  - Advice to clients
  - Intermediation of companies' and investors' access to capital markets

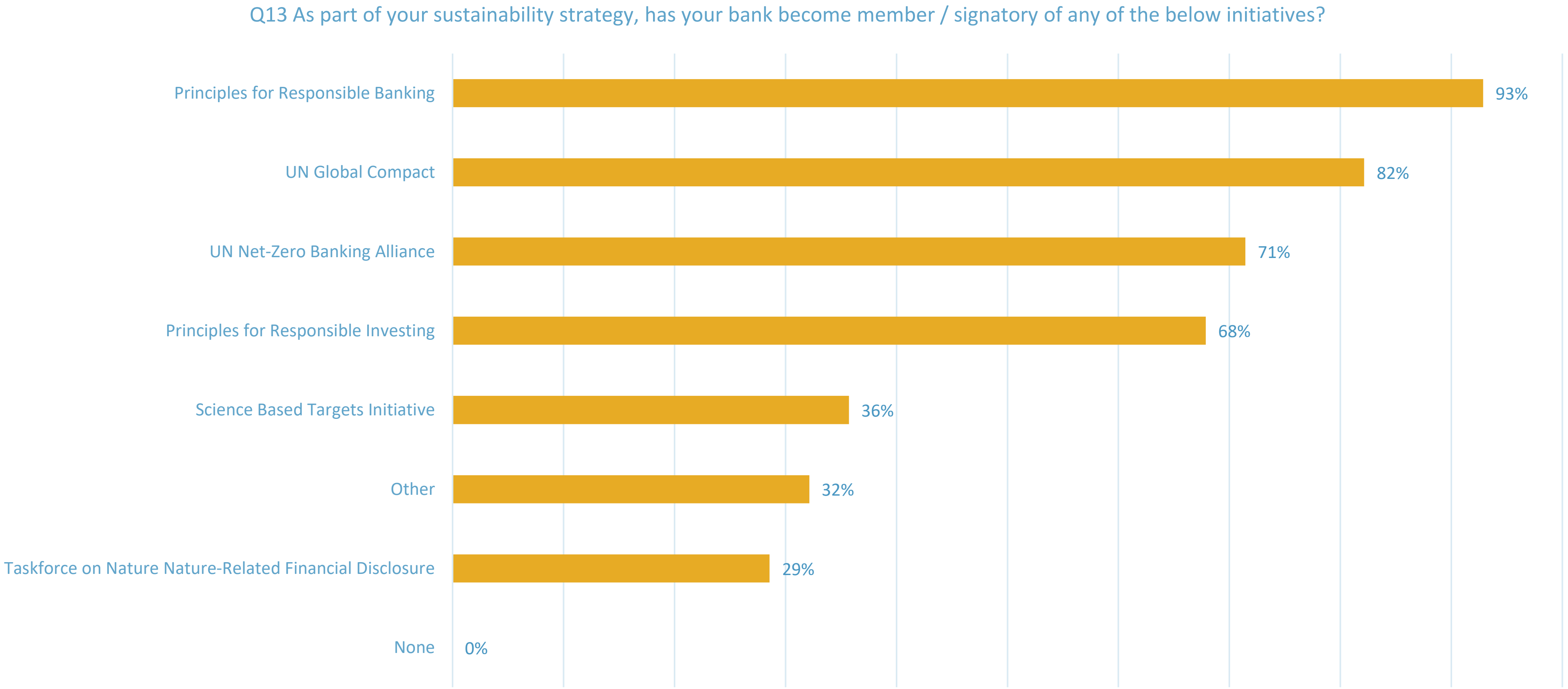
An overview of SDGs and Banks

Climate is at the center of the banks' SDG strategies

Financing is where banks can make the biggest difference



And collective action helps



How is the EBF accelerating the green transition?

- Support for the PRB as a regional ambassador
- Analytical work on SDGs
- Creation of a CSO Roundtable
- Engagement in the COPs
- High-level and technical advocacy to shape the EU sustainable finance framework
- Global engagement to ensure consistency
- Helping banks with implementation of EU rules
- Coordination with corporates and SMEs at the pan-European level
- Communication to reassure stakeholders and public actors
- Coordination with other sectors

Key principles for the green transition

- Avoiding excessive regulation that places a disproportionate burden on banks in relation to sustainability; ensuring **an optimal regulatory framework** for sustainability, promoting incentives and preventing undue penalties and restrictions on bank business
- Promoting a **smooth, orderly and just transition** that minimizes physical and transition risks
- Helping banks obtain an **enabling environment** to implement their commitments regarding climate change and other SDGs critical to bank business; optimizing and promoting self-regulatory initiatives such as the PRB, NZBA as a way to avoid excessive regulation and limit climate risks for the sector and economy as a whole
- Accelerating the banks' sustainability efforts through **exchange of information, best practices and advocacy of incentives**

What are some examples of best practices?

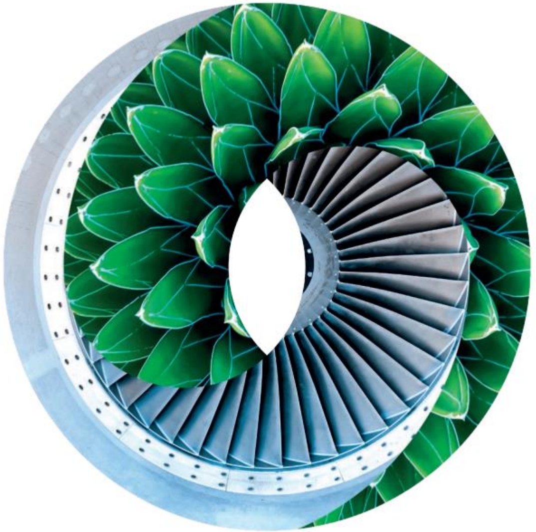
- NZBA
- Internal structures: The CSO Role
- Reporting
- Risk management

Net Zero Targets

- Most banks in Europe made public net-zero commitments, and are publishing interim sector-specific targets, mainly in the energy sector.
- Many large banks have joined initiatives such as the Net Zero Banking Alliance (NZBA), the Partnership for Carbon Accounting Financials (PCAF) or the Collective Commitment to Climate Action organized by UNEP FI.
- *Last year at COP26, financial institutions committed to aligning $130tn of private capital with Paris goals.*
- *The NZBA signatories commit to adapting their lending and investments portfolios to meet the net-zero goal by 2050 or sooner, using robust, science-based guidelines. Signed by more than hundred banks across 40 countries, representing over 40% of global banking assets, the NZBA provides a benchmark for banks to compare their transition efforts. Such international non-regulatory initiatives are complementary to existing national framework as well as EU Action Plan for Sustainable Finance.*

An important new role: The CSO

Deloitte.



The big picture

How Chief Sustainability Officers can drive the banking sector's sustainability efforts

June 2022

Executive summary

This **joint report** of the European Banking Federation (EBF) and Deloitte explores the emerging role of the **Chief Sustainability Officer** (CSO) in banks. Based on interviews with 28 CSOs (or equivalent sustainability leaders) from various European banks of different sizes and business models and complemented by an in-depth survey and research, the report demonstrates that this new role contributes to the implementation and acceleration of banks' sustainability objectives.

First, the report defines the **key role of the banking sector in the EU's sustainability journey**, in that banks hold a unique position through their advisory and financial role in supporting companies with robust transition plans. The sustainability agenda provides banks with new business opportunities by connecting financial and societal objectives as well as a competitive advantage if they can stay ahead of the curve.

The report then explores the **external and internal** factors heightening the importance of sustainable finance to banks' business. Alongside the **external** drivers of the sustainability transformation (international non-regulatory frameworks and peer pressure; regulatory and supervisory rules; and demand from investors and external stakeholders), banks are also motivated by **internal** drivers (banks starting to identify and manage sustainability risk in the longer time horizon; the increasing impact of sustainability on business decisions to maintain profitability, performance and competitiveness and reduce transition risks; the integration of sustainability into governance and management; and the incorporation of sustainability objectives into business strategies).

Combining the survey's results, interviews and research, the **report's key findings** can be summarized as follows:

- **Sustainability is becoming a key priority for European banks.** Banks are increasingly focusing on sustainability, and progressively more as a business opportunity than merely a compliance concern. External factors—such as stakeholders' expectations and regulatory pressure—and internal factors—such as in-house decisions for strategic change—combine to drive most European banking sector institutions to implement a sustainability strategy. The main focus is on the sustainability of banks' financing activities rather than their internal operations. Most banks have considered specific SDGs in their strategies, with SDGs 13, 8 and 12 being the most used—due to being considered more material to banks and more aligned with their core business, as well as relating to areas where their financing activities can make the biggest impact. This focus is reinforced by the EU Taxonomy Regulation's current scope of environmental and climate-related topics, such as climate change mitigation, transition to a circular economy, and pollution prevention and control.
- **The banking sector is moving from G to E and S.** Due to the strict regulatory environment in which the banking sector has been operating since the 2008 global financial crisis, the sector is currently strongest on G (governance). While all three dimensions of ESG are related, and further progress on G continues, the current policy focus prioritizes the E (environment) given the urgency of fighting climate change. These factors, combined with S's (social) other methodological difficulties, have led to less progress in this area. But these difficulties, including its scope and the measurement of its impact, are expected to be surmounted with the preparation and implementation of the EU's Social Taxonomy, as well as the Corporate Sustainability Due Diligence proposed directive.

A big green transition underway in banks…

Reporting

- **77% of global banks are producing climate-related disclosures**, increasingly based on the recommendations of the TCFD. And this is only going to improve as mandatory reporting obligations are being introduced around the globe.
- **Replacement of the Non-Financial Reporting Directive (NFRD) with the more ambitious Corporate Sustainability Reporting Directive (CSRD)** that will extend the scope both in terms of number of companies that will need to report as well as what will need to be reported compared to the NFRD. This initiative, complemented with the European Single Access Point (ESAP) – a repository of data collected by EU authorities that can be accessed by users of data – is aimed at increasing transparency, data quality, comparability and data availability which currently is the number one challenge for banks portfolio and risk management. The European Sustainability Reporting Standards envisaged in the CSRD are currently being developed by EFRAG and companies under the CSRD will need to report based on these standards.
- Adaptation of the sustainability reporting standards to SMEs has been one of the key EBF priorities.

Risk management

- **Banks are also beginning to embed climate risk into risk management.** We have surveyed almost 30 European banks – only 7 % said that they did not yet start the process of embedding climate risk. Of course, integrating long term risks into the existing prudential framework is not easy and we will be working with the ECB on practical and pragmatic approaches, as methodologies will be under development and data availability will be improving, building on lessons learned from the recent ECB climate stress test and climate risk thematic review. However, it is important that progress is made at the global level to avoid jurisdictional fragmentation.

Some other initiatives on inclusive growth

- Financial education, financial health & financial inclusion
- EBF Implements the UN’s Women’s Empowerment Principles (SDG 5)
- Diversity and inclusion project of the EBF
- Sustainable development goals and the EBF

DEI & banking: Examples of individual bank actions

- Adopting an external framework (eg WEPs and/or national charter)
- Diversity policy drafted and made public
- Public targets, benchmarking, measurement on diversity in management and staff
- Disclosures on the gender pay gap
- Diversity & Inclusion Manager appointed
- Committee on DEI or gender equality
- Actions aimed at culture & leadership
- Community initiatives

What could be the lessons learned for SEE?

- **The EU is a leader in sustainability** – and adopting EU norms will help SEE companies & banks.
- **Political will and private sector initiatives must go hand in hand** – the amount to be financed is too much and activities too complex for either side alone.
- **Banks are a critical part of the green transition** – but many other parts of the puzzle must be in place.
- **Best practices are evolving in banks** – in sustainability governance, reporting, risk management.
- **Skills will be a critical element** – in banks, companies, customers, and the public at large.

Thank you!

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