Building a green financial sector

The EBRD is committed to building a green financial system that can form the backbone of a green economy. The financial sector can drive change by directing capital to sustainable investments and spreading the adoption of climate-friendly business practices.

The EBRD supports all stakeholders, from financial regulators to partner financial institutions (PFIs). The Bank links its policy support for shaping the standards for a green transition with investments that provide green capital for PFIs and their sub-borrowers. This holistic approach creates an enabling environment for private capital mobilisation and the systemic transformation of financial institutions.

EBRD policy activities help build capacity among financial-sector policymakers, including central banks and ministries of finance. The Bank supports the development of climate risk management frameworks, sustainable finance policies and disclosure frameworks, and green finance instruments.

The Bank also helps its PFIs to integrate the latest environmental and sustainability practices into their core business operations, metrics and governance. It provides training to PFIs on topics such as climate risk assessment and management, and the integration of an environmental, social and governance (ESG) strategy into banking operations.

As part of the EBRD's Paris alignment commitment, it is helping PFIs to align their portfolios with the objectives of the Paris Agreement. The EBRD's CCG Facility helps PFIs develop transition plans that address climate governance gaps, identify priority green investments and raise capital. It helps them set time-bound milestones for achieving alignment. Transition planning helps PFIs prepare for a new regulatory environment and remain competitive and resilient in the face of climate change.

By the end of 2023, seven clients had signed agreements related to transition plans. The Bank launched country-level programmes for PFIs in Morocco and Armenia, as well as five technical cooperation projects to support PFIs in strengthening their climate risk management processes and corporate climate governance.

To raise awareness of Paris alignment, the EBRD this year organised the "Pathways to Paris" conference in Vienna, with the support of the Global Environment Facility. Around 300 financial-sector stakeholders from the EBRD regions discussed how to integrate transition planning and corporate climate governance into their strategies and operations.

The Bank has a long track record of delivering green finance in partnership with PFIs across its regions. The EBRD's Green Economy Financing Facility (GEFF) provides green credit lines to local partner banks who on-lend the funding to their clients for investments in energy efficiency, renewable energy and climate resilience. It operates through more than 190 local financial institutions in 28 countries, supported by more than €6 billion of EBRD finance. GEFFs have enabled more than 230,000 clients to collectively avoid over 10.5 million tonnes of CO_2 emissions per year.

Case study: EBRD helps Armenia's financial sector prepare for Paris alignment

In 2023, the EBRD began to support the financial sector in Armenia in its preparation for Paris alignment. This included:

- Helping the Central Bank of Armenia (CBA) to create the conditions for climate-related financial disclosure and the promotion of sustainable investment in the financial sector. This allowed the regulator to strengthen its capacity to identify, manage and mitigate climate-related risks and ensure financial-system stability. The CBA's activities are contributing to the country's transition to a more sustainable and low-carbon economy, as well as mobilising private investment in the region.
- Piloting a climate transition planning programme for PFI clients in Armenia, which explored the challenges and opportunities of climate change for financial institutions. Participants were expected to complete an outline of a transition plan for their institution, as well as steps for internal approval and ultimate disclosure.
- Delivering a series of climate transition planning "masterclasses", co-hosted by the EBRD and the CBA, open to EBRD clients and the wider financial community.

The EBRD's model of capacity building in Armenia is the first of its kind. The Bank is beginning to replicate and deploy this model in other countries, including the Kyrgyz Republic, Tajikistan, Türkiye and Uzbekistan, as well as similar initiatives in Morocco.

Green capital markets

Capital markets provide a critical source of funding, contributing to financial resilience and sustainable growth. However, capital markets in EBRD economies remain largely fragmented, shallow and illiquid. Working with local authorities, market regulators and other stakeholders, the EBRD works to consolidate markets, strengthen capital market infrastructure, develop legal and regulatory environments, diversify the local investor base and product range, and reduce reliance on foreign-currency lending.

Capital markets have the potential to mobilise the levels of financing needed to support the objectives of the Paris Agreement, as shown by the exponential growth in green, social and sustainability bond issuance globally to more than US$ 4 trillion (€3.6 trillion) from inception to June 2023. The EBRD regions lag this global trend, facing ongoing challenges in drawing more global investment capital to their economies. Successful initiatives include the MSCI pan-Baltic capital market index launched in 2023.

The EBRD undertakes policy dialogue in the economies where it operates to ensure that green taxonomy standards are uniform and align with globally recognised principles. In 2023, the Bank invested a record €1.1 billion in 46 issues, including green, sustainability and sustainability-linked bonds, up from €848 million in 2022.

The EBRD also helps prospective issuers to prepare for their inaugural green issuance, for example, by improving their ability to identify, monitor and track green assets, thus increasing the supply of green assets over time. In the case of sustainability-linked bonds, the Bank can support issuers in setting ambitious green criteria or performance indicators.

Case study: EBRD supports the development of Georgia's capital markets

Georgia's capital markets have developed significantly in recent years. However, long-term local-currency funding options for local issuers are limited by the country's high dollarisation rate, narrow range of capital market products, low liquidity and shallow investor base.

The EBRD has worked with Georgia since 2011 to bolster its capital markets and make them attractive to investors. In 2023, the Bank supported capacity building in the corporate sector and made direct investments in local bonds.

The EBRD's European Union (EU)-funded Capital Market Support Programme trained corporate-sector participants on topics including capital markets products, marketing and investor relations, transparency and disclosure, corporate governance and credit ratings. Workshops on initial public offerings and ESG issuance were also offered.

More than 20 Georgian firms applied for programme grants to reimburse part of their issuance-related fees. Of those, 11 successfully placed securities on the local capital market with a total issuance volume of over €250 million, more than doubling the size of the corporate bond market.

The programme supported seven of those issues with grants, helping companies to raise more than €150 million on the local capital market, including through novel green and social (gender) bonds and two inaugural issues by small and medium-sized enterprises (SMEs). The EBRD invested about US$ 14 million (€13 million) in the first issue under the programme – the first green bond ever placed on the Georgian capital market.

In 2023, the EBRD also participated in Georgia's largest ever corporate offering and the first sustainability-linked bond (SLB) issued in the Caucasus. It invested US$ 25 million (€23 million) in the US$ 150 million (€135 million) corporate bond issued by its longstanding client, Georgia Capital, which will enhance the robustness of its capital management and boost its investment capabilities. The issue is also in line with its net-zero ambitions, with Georgia Capital committed to reducing CO_2 emissions across its businesses by 20 per cent by the end of 2027.