

REPORT

7th Training Academy for Politicians on Sustainable Finance for Climate Change Mitigation and Adaptation 21 October 2022 – 9:30-12:45 CET – Online

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7th Training Academy for Politicians

Sustainable Finance for Climate Change Mitigation and Adaptation

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Purpose of the Training Academy on Sustainable Finance

On 21 October 2022, the Council of European Municipalities and Regions (CEMR) organised a **training event for elected political representatives working in climate adaptation and mitigation, with an emphasis on sustainable finance**. The sessions included a keynote speech from a scientist, presentations of case studies, interactive exercises and discussions. The objective was to familiarise local and regional elected officials with the concept of sustainable finance from a scientific, regulatory and technical perspective.

This edition of the training academy represents the seventh in the series organised by CEMR/PLATFORMA, which was initially inspired by the [Urban Agenda for the EU](#). The work of the six earlier editions held in 2019 and 2020 has been compiled into one [manual for easy consultation](#). The most recent academy focusing on climate change adaptation took place in June and the training material for that event can be found [here](#).

Main scope, goals and agenda of the online training

The overarching objective of the training academy can be seen in the following four goals, which correspond to the training agenda's components:

Goal	Agenda item
1) Provide a scientific overview and introduce the concept of sustainable finance	<p><i>Keynote speech: Introduction to Sustainable Finance – introducing the theoretical foundations and objectives (9:45)</i></p> <ul style="list-style-type: none"> Keynote speech by Laurent Lascols (Dauphine-PSL University, Paris) on “Principles of sustainable finance”
2) Provide essential information on the EU sustainable finance regulatory framework	<p><i>Panel 1: The European Sustainable Finance regulatory architecture (10:05)</i></p> <ul style="list-style-type: none"> Serge Giacomotto (DG for Climate Action of the European Commission) on key features of the EU Taxonomy and its links to other relevant regulation such as the Sustainable Finance Disclosure Regulation (SFDR) or the EU Green Bonds Standard
3) Lay out the role local and regional governments (LRGs) can play in mobilising climate finance	<p><i>Panel 2: The role of local and regional governments in financing climate action (11:10)</i></p> <ul style="list-style-type: none"> Project presentation by Isabelle Chatry (OECD) on “Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries” and the “Subnational Climate Finance Hub of the OECD” Pedro Bizarro (CEMR) on “The funding guide of the Covenant of Mayors for Climate and Energy Europe”
4) Present examples of funding opportunities and projects enabled through sustainable financial products in Europe and worldwide	<p><i>Panel 3: Practitioners to present funding opportunities and projects enabled by sustainable finance (11:45)</i></p> <ul style="list-style-type: none"> Rami Erkkilä (MuniFin) to present an example of subnational municipal credit institutions and financing projects regarding climate change mitigation and adaptation.

- | | |
|--|---|
| | <ul style="list-style-type: none">• Assen Gasharov (European Investment Bank) on EIB funding opportunities• Open floor discussion between panellists and participants. |
|--|---|

Key concepts and terminology of sustainable finance

Climate change, the Paris Agreement and sustainable finance

Fighting climate change constitutes a double challenge for society. First, the future impact of climate change can only be prevented by early and deep cuts to greenhouse gas (GHG) emissions. The Paris Agreement, adopted in December 2015 and entered into force in November 2016, sets forth as its main objectives the reduction of GHG emissions, changes to land use to keep the average rise in global temperatures well below 2°C compared to pre-industrial levels, and the pursuit of efforts to limit the temperature increase even further to 1.5°C. Beyond this 1.5°C change, the risk of dangerous and unpredictable climate change effects increases significantly and the costs of adaptation escalate (see the 2018 [IPCC 1.5 Special Report](#) and the last 2022 [IPCC Report](#)).

Second, the achievement of these goals will depend on the mobilisation of sufficient funding from public and private capital. Hence, Article 2c of the Paris Agreement provides for “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. For the EU, [the Commission](#) estimates that an additional EUR 350 billion will be needed every year until 2030 to meet the emissions reduction target of 55% by 2030 as compared to 1990.

The market for sustainable finance products

Even prior to the Paris Agreement, capital markets had begun issuing green financial products. In 2007, the [European Investment Bank](#) launched its “Climate Awareness Bond” (CAB), the first de facto green bond to finance climate-related projects. Since then, green financial instruments evolved from being a niche product for sustainability-focused investors into one with a broader market share.

Since their inauguration, [CABs have surpassed EUR 1.5 trillion in cumulative issuance](#) on the global green bond market. Their success has been further complemented by the issuance of social and Sustainability Awareness Bonds (SABs), representing around EUR 720 billion in cumulative issuance on the global green bond market. The European Investment Bank (EIB) is now the biggest multilateral development bank issuer of green bonds with close to EUR 60 billion CABs and SABs in 22 currencies. Faced with demand for larger and more liquid bonds, the EIB has begun issuing CABs in Euro Area Reference Note (EARN) format, with a EUR 4 billion climate awareness EARN due 15 June 2032.

The main arguments in favour of this sustainable finance market development are twofold. On the issuers’ side, a key consideration for raising debts or equity through “green” earmarked financial products is the on average lower costs of capital as well as the added benefit of acquiring a reputation as an environmentally responsible economic entity. On the investors’ side, the main drivers include pro-environmental preferences, regulatory incentives to decarbonize asset portfolios and a shift towards holding on to this type of asset long-term.

Linked to the surge in sustainable finance, the question of standards, credibility and certifications has also arisen. According to the [OECD](#), one central market failure remains the lack of information

symmetry and the lack of comparability of the different products which hinders further market developments (OECD, 2020). In response, authorities from different jurisdictions began launching sustainable finance policies, chief amongst them the European Union which took on a leading role.

Index of key terms

- **Do No Significant Harm (DNSH):** An economic activity should not qualify as environmentally sustainable if it causes harm to any of the environmental and climate objectives.
- **Corporate Sustainability Reporting Directive (CSRD):** Directive detailing the specific sustainability reporting requirements for companies.
- **Corporate Sustainability Due Diligence Directive (CSDDD):** Directive requiring a wide range of companies to carry out due diligence in their value chains in respect of a wide range of sustainability factors. Closely linked to the CSRD. Final approval by the EU decision-making bodies still pending.
- **European Financial Reporting Advisory Group (EFRAG):** standard setter. Following the implementation of the CSRD, also advises the European Commission (EC) through the direct or indirect development of the corporate sustainability reporting standards.
- **European Supervisory Authorities (ESAs):** The European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) together make up the ESAs and actively contribute to the implementation of the sustainable finance framework.
- **European Sustainability Reporting Standards (ESRS):** Standards to be adhered to by companies in their reporting under the CSRD. Covers various sustainability factors and a wide range of key performance indicators (KPIs). To be implemented in CSRD Level 2 legislation.
- **Financial Product:** Within the context of EU policy, the term financial product refers to Structured Products (i.e. funds holding bonds or stocks are considered financial products whereas individual bonds or stocks are not).
- **Minimum Social Safeguards (MSS):** The minimum social and governance requirements for activities to be aligned with the EU Taxonomy.
- **Taxonomy Regulation (TR):** Legal Basis for the EU Taxonomy, notably setting out four conditions that economic activities have to meet to qualify as environmentally sustainable.
- **Sustainable Finance Disclosure Regulation (SFDR):** Regulation which aims to increase transparency and reduce greenwashing among financial market participants by requiring financial entities and undertakings' compliance with the taxonomy reporting requirement.
- **Non-Financial Reporting Directive (NFRD):** Directive establishing reporting requirements for large listed companies and public interest entities. Will eventually be replaced by the CSRD. In particular, imposes the taxonomy reporting requirements on companies.
- **Substantial Contribution (SC):** An economic activity can make a substantial contribution to one or more of the environmental objectives set out in the EU Taxonomy.
- **Technical Screening Criteria (TSC):** Conditions used to determine whether an activity meets the SC or DNSH requirements to be considered taxonomy-aligned. The TSCs are set out in the Taxonomy Delegated Acts.



7th Training Academy for Politicians

Sustainable Finance for Climate Change Mitigation and Adaptation

- **Too many acronyms to keep track of (TMA-2KTO):** That is the point of this Index.
- **Principal Adverse Impact (PAI):** Disclosure requirements for financial market participants (e.g. GHG emissions; water footprint; women on management boards, etc.) providing some indication regarding the sustainability impact of particular financial products.
- **Regulatory Technical Standards (RTS):** Level 2 legislation produced by the ESAs in cooperation with the EC, laying out the specifics of the supplementary SFDR reporting rules for financial market participants.



Content summary of the Training Academy and speaker panels

Keynote speech: Introduction to Sustainable Finance – introducing the theoretical foundations and objectives

- Keynote speech by Laurent Lascols (Dauphine-PSL University, Paris) on “Principles of sustainable finance”

Introduction:

The [European sustainability competence framework](#) defines sustainability as “prioritising the needs of all life forms and of the planet by ensuring that human activity does not exceed planetary boundaries”. This definition clearly underscores the impact of human action on the planet, corroborating that human activity is what characterises the Anthropocene. Any discussion of sustainability therefore needs to address the human activity impact as it has been directly linked to climate change.

Temperatures 20 000 years ago were, on average, three degrees lower than today. This difference in temperature made for a completely different European landscape. Back then, countries such as Scotland and Nordic countries were covered in ice.

Today, an increase of 3°C by the end of the century is to be expected, with all the changes that this entails for our planet and thus for its inhabitants who are now at risk on multiple fronts.

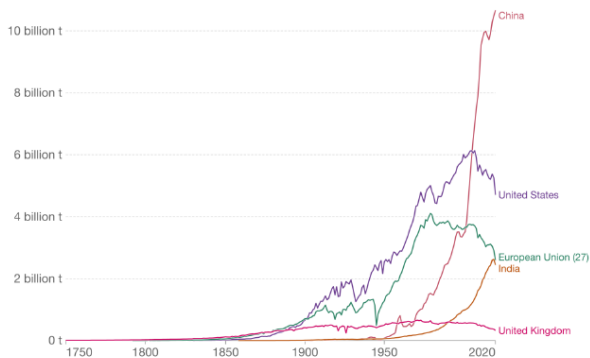
The industrial revolution marked the beginning of a new era built on economic growth stemming from the use of machines, with a marked acceleration in the creation of goods and wealth, as well as a steep rise in greenhouse gas (GHG) emissions. However, the growing amount of GHG emissions has since become a “tragedy of the commons”, in reference to the oft-cited concept written about by Garrett Hardin regarding the wasteful depletion of a common resource.

The rise in emissions after the industrial revolution was just the beginning. From 1750 up until the early 2000s, the US had been the biggest emitter. The 2000s were a turning point, when emissions for the US and the EU started decreasing, whereas China’s skyrocketed, making it the leading GHG emitter.

However, when looking at cumulative emissions, China is in third place behind the US and the EU, both which started producing emissions before the emerging countries. This difference between cumulative emissions and annual emissions presents a dilemma at the international level. In view of ensuring a fair transition, should the emerging countries, which have not yet been able to reap the benefits of industrialised wealth, have to undergo the same constraints as the old emitters even if it impedes their development?

Annual CO₂ emissions

Carbon dioxide (CO₂) emissions from fossil fuels and industry. Land use change is not included.

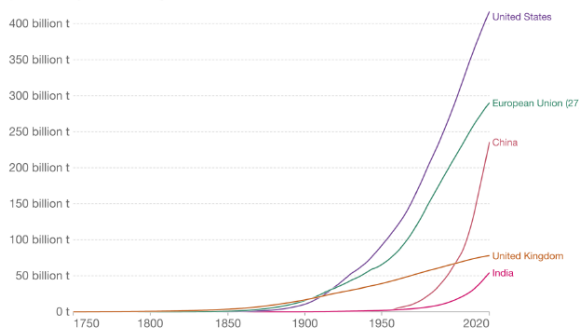


Source: Global Carbon Project OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/ - CC BY

Introduction to Sustainable Finance

Cumulative CO₂ emissions

Cumulative carbon dioxide (CO₂) emissions represents the total sum of CO₂ emissions produced from fossil fuels and cement since 1750, and is measured in tonnes. This measures CO₂ emissions from fossil fuels and cement production only – land use change is not included.



Source: Our World in Data based on the Global Carbon Project

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/ - CC BY

Introduction to Sustainable Finance

Starting in the 1980s and 90s, the international community began to become aware of the importance of this issue. The Rio Summit organised by the [UN](#) in 1992 was known as the Earth Summit. It achieved significant advances such as the Convention on Climate Change and the Convention on Biodiversity. Those conventions gave birth to the Conference of the Parties (COP), which are still regularly organised. The most significant among them to date was the COP21 that took place in 2015.

2015: When the stars aligned

The year 2015 was an important year for climate issues. The first encouraging signs came with the release of the IPCC's Synthesis Report on climate change in late 2014. This document provided a strong scientific fundament that helped ground the preparatory work for the Paris COP scheduled for the end of the year. Then, in quick succession, Pope Francis released an encyclical (*Laudato Si*, 2015) addressing the deterioration of the global environment, the UN adopted its [Sustainable Development Goals](#), Marc Carney gave a speech at a Lloyd's of London dinner and, lastly, the [Paris Agreement was reached](#).

The Sustainable Development Goals (SDGs)

The SDGs are the United Nation's blueprint for achieving a more sustainable future for all. There are 17 different goals covering inter alia inequality, environmental degradation and peace and justice. In September 2015, the UN Assembly adopted all 17 Sustainable Development Goals, which together form a core component of the [2030 Agenda](#) (UN, 2015) since they are intended to be achieved by 2030.

Mark Carney speech

Shortly after this UN assembly, Mark Carney, former Governor of the Bank of England, gave a landmark speech to key insurance and financial actors at a Lloyd's of London event on the risks of climate change, defining it as the tragedy of the horizon on account of the fact that politicians and businessmen working on the issue of climate change today have little incentive to alter course since the worst effects of climate change are a distant blip on their horizon, whereas the next generation's will decidedly give them a different perspective.

He started his speech by saying, "Climate change is the Tragedy of the Horizon... once climate change becomes a defining issue for financial stability, it may already be too late". He then pointed out the three risks linked to climate change that represented the greatest threat to financial stability: (i) the physical risk; (ii) the liability risk; and (iii) the transition risk.

Mark Carney also stated that the only way to reconcile these differing horizons and prevent this tragedy was to lay out a new foundation built on more comprehensive information and a better grasp of the risks, thus securing more attractive pricing for investors while also helping policy makers to make better-informed decisions, ultimately ensuring a smoother transition to a lower carbon economy.

The Paris Agreement and finance

Article 2.1 of the Paris Agreement sets forth in detail the three objectives to be achieved:

- "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- **Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".**

Governments can facilitate this last objective by providing tools such as financial policies, regulations, fiscal policy levers, and public finance and information instruments.

Together, this third objective and the takeaway points from the two events mentioned above constitute the foundation of sustainable finance.

Sustainable finance beyond climate concerns

Sustainable finance is not limited to climate issues but is also essential to biodiversity and the scarcity of resources and, more globally, the environment. Tackling environmental issues also calls for an energy and ecological transition. However, it is critical to ensure that this transition is fairly implemented to preclude the risk of igniting a social movement, as happened in France with the Yellow Vests protests.

This is why sustainable finance must also address social issues of governance. The EU approach provides a great example of how to take on aspects transcending climate. Of the [EU Taxonomy's](#) six environmental objectives, only the first two relate specifically to the climate and the remaining four are environmental in nature.¹ Moreover, the taxonomy also calls for compliance with social safeguards, thus acknowledging the need for a fair transition.

Definition of sustainability

Within the framework of the Taxonomy and taking the ESG dimension into account, the [EU Platform on sustainable Finance](#) considers an activity to be sustainable when it:

- Contributes substantially to at least one of the six environmental objectives,
- Does not significantly harm any of the other five environmental objectives,
- Complies with the Minimum Social Safeguards (MSS).

The first two characteristics must also comply with a set of Technical Screening Criteria (TSC).

Sustainability and stakeholders

From a project's outset, sustainability is an issue of concern to all stakeholders. In the case of a local project, a large number of stakeholders are involved such as local authorities, suppliers and offtakers. Other invested parties include debt and equity issuers as well as insurers, all of whom are necessary to finance a project. When making a sustainable investment, the physical, transition and litigation risks must be taken into account by internalising possible externalities.² Externalities are linked to environmental and climate issues, e.g. GHG emissions, biodiversity issues and resource depletion. Finally, the project should also assess the social dimension and ensure the process gives due consideration to employees and unions' needs as well.

Therefore, for a project to be sustainable, all stakeholders need to internalise the externalities in the investment methods, the making of policies and their implementation.

Traditional finance vs sustainable finance

Sustainable finance represents a new approach that fills in the gaps left by traditional finance.

First, it addresses the lack of reliable information. Traditional finance does not provide a clear definition of "sustainable investment", which is often associated with a poor understanding of investment products, often leading to greenwashing. In contrast, sustainable finance, through the EU taxonomy, establishes a framework defining sustainable investment in various sectors. It also sets

¹ Climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems (European Commission, 2022).

² "An externality is a cost or benefit of an economic activity experienced by an unrelated third party. The external cost or benefit is not reflected in the final cost or benefit of a good or service. Therefore, economists generally view externalities as a serious problem [...] leading to market failures." (Corporate Finance Institute, 2022).

standards and labels, providing certainty to investors as to what is “green”, thus avoiding greenwashing.

Second, in traditional finance, banks and insurers often insufficiently assess climate and environmental risks. Oftentimes, investors also disregard sustainability aspects or underestimate their impact. Sustainable finance resolves these issues by integrating those risks into the mandate of supervisors while also clarifying institutional investors’ duties when allocating assets.

Finally, traditional finance does not account for the change of horizon in governance and, as a result, bank disclosures regarding the sustainability of corporate activities are insufficient. Sustainable finance resolves the long-termism issue in governance by enhancing non-financial information disclosure.

Panel 1: The European Sustainable Finance regulatory architecture

Serge Giacomotto, Policy Officer at the Directorate-General for Climate Action of the European Commission, presented the key features of the EU Taxonomy and how it interacts with other relevant regulation such as the Sustainable Finance Disclosure Regulation (SFDR) or the Corporate Sustainability Reporting Directive (CSRD).

The EU Road towards climate neutrality – how to finance the green transition and the 2018 Sustainable Finance Action Plan

The presentation provided context for the EU’s sustainable finance agenda, which is embedded into the overarching policies of the [European Green Deal](#), a package of legislative and regulatory initiatives intended to make Europe the first climate-neutral continent by 2050. To achieve this goal, the Commission estimates that it will be necessary to mobilise at least EUR 1 trillion in sustainable investments by 2030, a sum that exceeds the capacities of public budgets in the EU, which will therefore need to be made up through private investments (cf. 2018 Action Plan). To contend with a fragmented market for sustainable financial products that had begun to emerge and evolve starting in the late 2000s, as well as considerable market barriers (cf. OECD, 2020) that persisted, the European Commission launched the 2018 Sustainable Finance Action Plan.

2018 Sustainable Finance Action Plan

1 Reorient capital flows towards a more sustainable economy	<ul style="list-style-type: none"> • Establish a clear and detailed EU Taxonomy and prepare the Delegated Acts on Climate Change objectives • Create an EU Green Bond Standard and labels for green financial products • Foster investment in sustainable projects • Incorporate sustainability in financial advice • Develop sustainability benchmarks
2 Integrate sustainability into risk management	<ul style="list-style-type: none"> • Improve integration of sustainability into ratings and market research • Clarify responsibility of asset managers and introduce a “green support factor” in the EU prudential rules for banks and insurance companies • Set out institutional investors’ duties regarding sustainability
3 Foster transparency and long-termism	<ul style="list-style-type: none"> • Strengthen sustainability disclosure and accounting rule-making • Foster sustainable corporate governance and attenuate short-termism in capital markets



The [Action Plan on financing sustainable growth](#) laid the foundation for the European Sustainable Finance Framework and is composed of three pillars. At its core, the **EU Taxonomy** adopted on 18 July 2020 classifies environmentally sustainable activities by sector. The resulting criteria provide companies, public entities, investors and politicians with concise definitions and sustainability standards. It therefore serves as a transparency mechanism intended to “create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed” ([European Commission](#), 2022). The second pillar consists of disclosure agreements, namely the **Sustainable Finance Disclosure Regulation (SFDR)**, which details the sustainability reporting regulations, and the **Corporate Sustainability Reporting Directive (CSRD)**. Finally, the EU has also made an extensive toolbox available, giving companies, market participants and financial intermediaries the means to develop sustainable investment solutions. One of the tools created is the **Standard for European Green Bonds (EUGBS)**.

In July 2021, the Commission announced a [new strategy for financing the transition to a sustainable economy](#), building on the 2018 Action Plan on Financing Sustainable Growth and the **Technical Expert Group (TEG) on sustainable finance**. This new strategy is structured around four axioms:

- Financing of the transition to sustainability, notably by including additional sustainable activities in the EU taxonomy.
- Inclusiveness (i.e. further developing the concept of an extended Taxonomy to cover so-called “amber” activities)
- Financial sector resilience and contribution
- Global ambition

Putting this new strategy into practice and fostering sustainable finance presents challenges at a different level for the EU. It calls for stronger international cooperation but also requires that this framework be implemented at regional and local levels.

What is the Taxonomy Regulation?

What is the EU Taxonomy?

The EU Taxonomy is the only tool that makes it possible to thoroughly and systematically compare the environmental performance of different companies and funds.

The EU Taxonomy's aim is to provide companies, investors, and policymakers with **appropriate definitions** regarding which economic activities can be considered environmentally sustainable.

Disclosure Requirements under the EU Taxonomy

- Disclosure of financial products marketed as sustainable/ESG.
- Obligatory disclosure for non-financial as well as financial entities.

Other Requirements

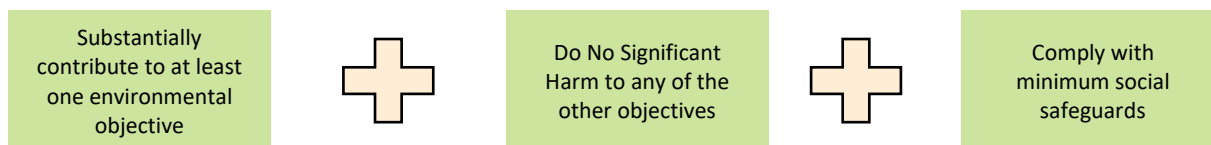
- EU Member States and the EU are required to use the EU taxonomy with respect to any labels created

What the EU Taxonomy is NOT

- An opinion pertaining to the financial performance of an investment.
- A rating of good or bad companies.
- A mandatory list to invest in.
- Inflexible or static.
- A label.

Taxonomy alignment and eligibility

The EU Taxonomy sets out activity-specific **criteria** that all private or public undertakings' activities must adhere to if they wish to be considered taxonomy-aligned. Taxonomy alignment is achieved by complying with three specific conditions:



An activity covered under the Taxonomy is considered **taxonomy-eligible**. However, if an economic undertaking (private or public) also complies with the above criteria for a taxonomy-eligible activity, that activity is **taxonomy-aligned**. Taxonomy eligibility is therefore indicative of maximum alignment potential with the Taxonomy.

Companies covered under the scope of the NFRD are required to report the shares of their turnover and capital (CAPEX) and operating expenditures (OPEX) that are taxonomy eligible and aligned. Funds making green/ESG claims also need to report taxonomy eligibility and alignment.

Timeline for disclosures

From 2022	<ul style="list-style-type: none"> Non-financial companies to report taxonomy eligibility for the previous calendar year ESG/Green Funds must report taxonomy eligibility
From 2023	<ul style="list-style-type: none"> Non-financial companies to report Taxonomy eligibility and alignment for the previous calendar year Banks/insurance to report Taxonomy eligibility for the previous calendar year ESG/Green Funds must report taxonomy alignment
From 2024	<ul style="list-style-type: none"> Financial and non-financial entities to report Taxonomy eligibility and alignment for the previous calendar year
From 2025	<ul style="list-style-type: none"> Financial entities may include estimates on Taxonomy alignment for DNSH assessments of non-NFRD investments, subject to the 2024 review period Start of mandatory CSRD sustainability reporting using ESRS from the previous calendar year

Taxonomy reporting

Taxonomy reporting indicates the methodology to be used in calculating the extent to which there is taxonomy alignment; it represents the weighted average of the taxonomy-aligned turnover of an economic undertaking (shading in green). The degree of taxonomy alignment thus also provides a benchmark is a comparable percentage (benchmark) for (financial) market participants.

Taxonomy reporting

As environmental sustainability can be summed up into one figure - % of Taxonomy-Alignment – the Taxonomy allows to compare the levels of sustainability of different investments.

Example: Company A carries out 3 activities, all of which are taxonomy-eligible

Activity 1 35% of A	Activity 2 45% of A	Activity 3 20% of A
50% Green	30% Green	20% Green



Taxonomy alignment of A:
 $35\% * 50\% + 45\% * 30\% + 20\% * 20\% = 35\%$

Example: Fund X includes investments in 3 companies with different levels of taxonomy-alignment

Company A 50% of X	Company B 25% of X	Company C 25% of X
34% Green	20% Green	20% Green



Taxonomy alignment of Fund X:
 $34\% * 50\% + 20\% * 25\% + 20\% * 25\% = 27\%$



Presently, the EU Taxonomy covers 13 economic macroeconomic sectors, which are collectively responsible for 80% of direct GHG emissions in the EU.

The Sustainable Finance Disclosure Regulation (SFDR)

The SFDR is one of the branches ensuring the implementation and compliance with the Taxonomy as it imposes sustainability reporting requirements on financial market participants at financial product level and at entity level.

Key features of the SFDR:

- Financial market participants must disclose how sustainability considerations have been incorporated into their investment strategies or justify any failure to do so (“Comply or Explain”);
- SFDR distinguishes between several categories of financial products, establishing specific disclosure rules for each type of product. SFDR also provides its own definition of “sustainable investment” to be used by financial market participants in their reporting;
- Article 8 products: These are ESG products (also referred to as “light green”). Their share of sustainable investments must be disclosed;
- Article 9 products: The objective of these products is sustainability objective i.e “Dark Green”. These products must consist of 100% sustainable investments. They also need to disclose their share of sustainable investments.
- Article 7 products: All other financial products. They must disclose any Principal Adverse Impacts (PAI).

Presenting the Corporate Sustainability Responsibility Directive (CSRD)

The CSRD and the Taxonomy are two complementary reporting tools that serve different purposes. The entry into force of the CSRD should significantly facilitate the implementation of the Taxonomy.

Key features of the CSRD:

- As the scope of the CSRD is five times larger than that of the NFRD, the CSRD will contribute to bridging the data gap on corporate sustainability impacts by requiring a wider range of companies to report in a standardised manner on a broad array of KPIs.
- While companies covered under the NFRD need to report on taxonomy via the Disclosures Delegated Act, many more companies will have to undertake taxonomy reporting when the CSRD enters into force.
- Under the CSRD, companies’ reporting will have to comply with the European Sustainability Reporting Standards (ESRS). While these are not sector-specific for the moment, work will start shortly on developing sector-specific ESRSs.
- All this data will be used downstream by financial market participants in their Taxonomy Reporting and in their Principal Adverse Impacts’ reporting, bringing more transparency to the markets.

Challenges to the EU Taxonomy

Apart from the above-mentioned challenges relating to Taxonomy compliance, further improvements to the Taxonomy's implementation include introducing a generic definition of DNSH criteria, the use of proxies for TSC and DNSH criteria, the applicability of the framework to SMEs, the interoperability of the framework's different components as well as an extended taxonomy framework. An extension (see below) would require more granular information on undertakings' economic activities and their transition towards sustainability. For more information, the Platform on Sustainable Finance's report is available [here](#).

Taxonomy extension

Extended Taxonomy framework

The PSF has recommended an extension of the Taxonomy framework to other levels of environmental performance i.e not only Green but also Amber, Red, Grey, Scarlet etc...

- Such an extension would not be difficult to implement because it would rest on already existing concepts, in particular on DNSH criteria.
- **Intermediate Performance Activities i.e Amber:** activities which comply with DNSH criteria
- **Significantly Harmful Activities i.e Red Alignment:** Activities which fail to comply with at least one DNSH
- **Always Significantly Harmful Activities i.e Scarlet:** Activities which always Significantly Harm an objective
- **Low-Environmental Impact Activities i.e Grey:** Activities whose environmental footprints are too insignificant to be considered as significantly harmful or substantially contributing to an environmental objective.

Traffic lights for Sustainable Finance



Further information

- Taxonomy compass (accessible [here](#))³
- Carbon Disclosure Project, "a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts." (accessible [here](#)) (CBD, 2022)

³ The compass enables users to check which activities are included in the EU Taxonomy (taxonomy-eligible activities), to which objectives they substantially contribute and what criteria they have to meet (European Commission, 2022).

Panel 2: The role of local and regional governments in financing climate action

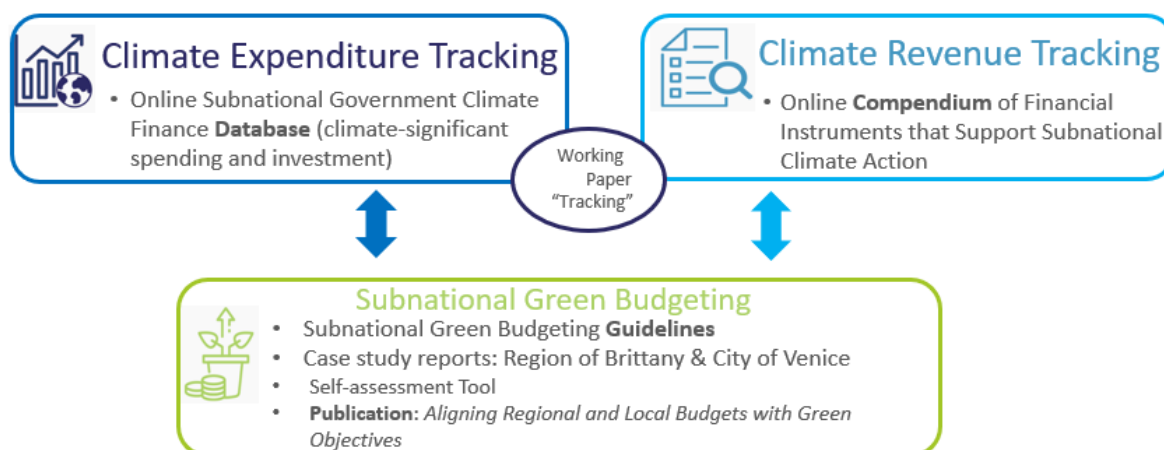
- Project presentation by Isabelle Chatry (OECD) on “Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries” and the “Subnational Climate Finance Hub of the OECD”
- Pedro Bizarro (CEMR) on “The funding guide of the Covenant of Mayors for Climate and Energy Europe”

OECD: “Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries” and the “Subnational Climate Finance Hub of the OECD”

This project’s aim was to improve the quantification and understanding of the financial role played by subnational governments in the carbon-neutral transition in view of enhancing subnational climate finance in support of Article 2.1c of the Paris Agreement. Notwithstanding the fact that subnational governments account for a significant share in public spending, more precise identification for the funding and financing of gaps for subnational climate action remains difficult (CEMR, 2022).

Consequently, the objectives can be narrowed further to:

1. Provide data that supports subnational governments’ taking action on climate change
2. Track progress towards the Paris Agreement
3. Identify and mobilise additional sources of climate finance

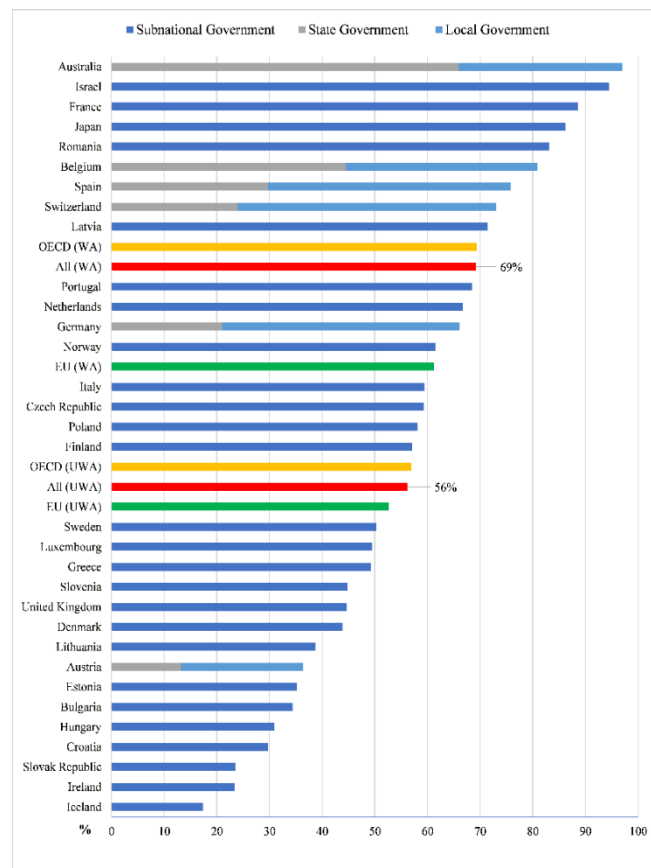


Subnational climate-significant expenditure and investment

To obtain more granular insights into impacts connected to subnational government expenditure, the OECD updated their tracking methodology (policy paper accessible [here](#)).

In a nutshell, subnational governments accounted for, on average, **63%** of climate-significant public **expenditure** and **69%** of climate-significant public **investment** in 33 OECD and EU countries. In the same year, **climate-significant expenditure** accounted for, on average, **1.1% of GDP** in 33 OECD and EU countries, and climate-significant investment accounted for **0.4% of GDP** (OECD, 2022).

From 2009 to 2019, only a slight increase in spending patterns could be detected; the combined average annual increase during this period for all countries included in the sample was low and amounted to **1.4%** for investment and **2.5%** for expenditure (OECD, 2022).



Subnational climate-related revenue sources: the Compendium of Financial Instruments that Support Subnational Climate Action

The Compendium (accessible [here](#)) aims to remedy existing data gaps to better understand local and regional climate-related revenue. In particular, the online tool helps to identify subnational public funding sources for climate action, compare different jurisdictions' instruments as well as initiate multi-level government dialogues concerning the availability of revenue sources. The compendium's dataset includes inter alia over 300 financial instruments, earmarked grants and climate funds as well as more granular data on the energy and building sectors.

Subnational green budgeting

The Paris Collaborative on Green Budgeting defines the latter as "using the tools of budgetary policy-making to help achieve environmental and climate goals" (OECD, 2022). To date, there is no one predominant methodology, but rather a variety of environment-related budgeting practices. In its information on the project, the OECD refers to two case studies, one from Brittany (FR) and another from Venice (IT) (accessible [here](#)).

The green **opportunities** offered by this policy tool are the result of:

- A better measurement of the climate footprint of expenditures and revenues
- An alignment of future subnational budgets with environmental and climate objectives
- A prioritisation of low-carbon investments as part of the post-pandemic green recovery

- An identification of funding gaps and mobilisation of additional sources of public and private finance
- A transparency and accountability tool (OECD, 2022).

Yet, the **main challenges** at the moment revolve around finding a transparent and robust response to evolving scientific evidence and climate challenges. Furthermore, the implementation of green budgeting requires adequate human, time and operational resources as well as a sufficient political will.

To achieve the best results from the implementation of green budgeting, the OECD formulated the following six guidelines:

- 1) Conduct a diagnostic of local environmental and climate challenges as a prerequisite to launching a green budgeting practice
- 2) Ensure strong, high-level involvement and support from both the administrative and elected arms of government
- 3) Adopt a stepwise approach to implementing green budgeting in order to learn from previous steps and to reinforce the alignment of the practice with local strategic priorities
- 4) Integrate the green budgeting practice into existing public financial management procedures and tools to help ensure the practice endures
- 5) Include revenue within the scope of the green budgeting practice to ensure the entire budget aligns with green objectives

The Self-Assessment Tool of the OECD (accessible [here](#)) gives LRGs the opportunity to identify their strengths and potential gaps for starting a green budgeting practice or improving existing ones. More in-depth information can be found in the OECD-EC publication “Aligning Regional and Local Budgets with Green Objectives: Subnational Green Budgeting Practices and Guidelines” (OECD-EC, 2022).

The Subnational Government Climate Finance Hub

The Hub is a **one-stop shop** to explore and navigate various project outputs and future subnational climate finance work (accessible [here](#)).

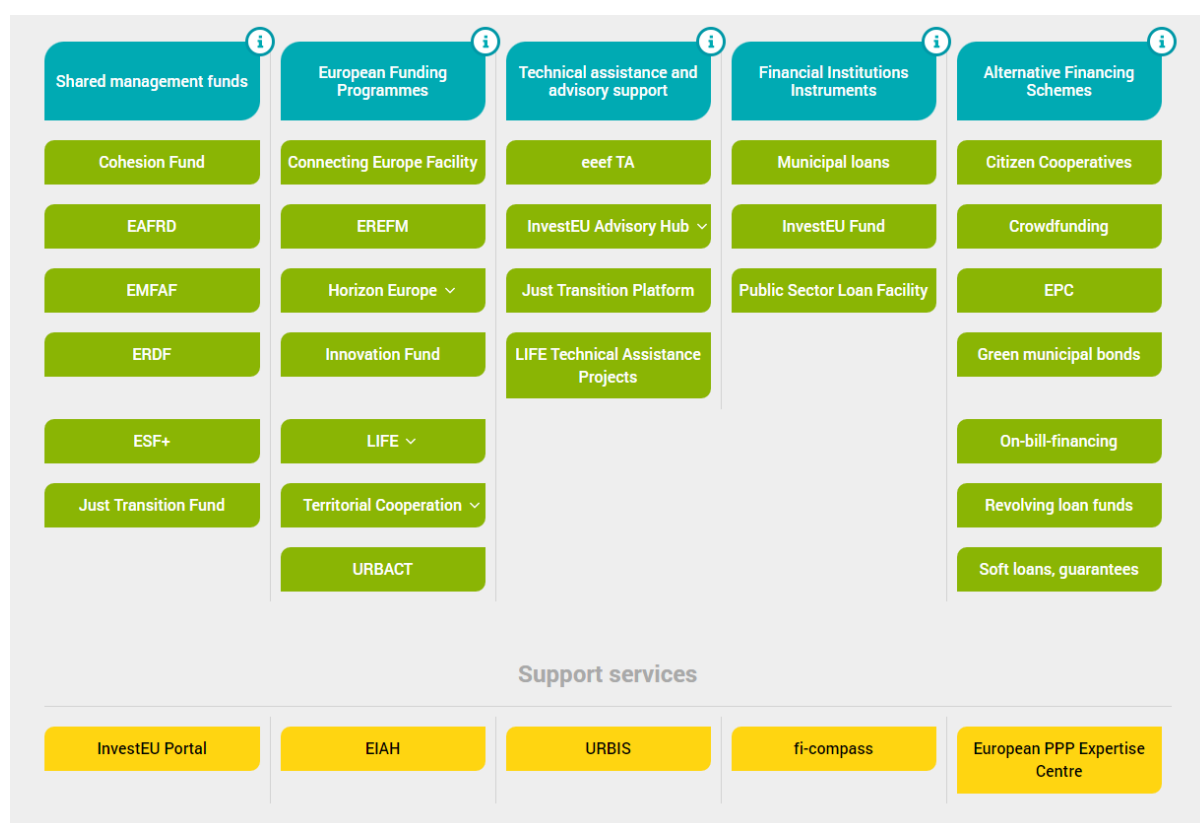
Covenant of Mayors Europe: Financing Opportunities for Sustainable Energy & Climate Action Plans

The [Covenant of Mayors for Climate & Energy – Europe](#) brings together thousands of local governments who have voluntarily committed to implementing EU climate and energy objectives, striving for the shared vision that, by 2050, we will all be living in decarbonised and resilient cities with access to affordable, secure and sustainable energy.

This initiative now has adherents totalling over 11 000 local and regional authorities worldwide able to draw on the strengths of an international multi-stakeholder movement ([Global Covenant of Mayors](#)) and the technical and methodological assistance offered by dedicated support offices.

Access to financing is key to transforming ambitious sustainable energy and climate action plans into projects. The [Covenant of Mayors' website](#) provides its community of members with clear and practical information on funding and financing opportunities.

It includes an interactive funding guide that assembles information on the funding initiatives managed by the European Union, the Member States, and key financial institutions such as the European Investment Bank. The guide also lists complementary information concerning support services and innovative financing schemes.



Useful links

To facilitate access, we are sharing the essential publications, including best practices from the Covenant of Mayors, key takeaways and useful reports from the main EU institutions pertaining to subnational climate finance. As a supplement to the online interactive funding guide, we have also put together a series of four leaflets to help guide you through a wide range of financing and funding opportunities for your energy and climate measures:

1. Innovative Financing Schemes
2. Project Development Assistance
3. EU Funding Programme
4. Financial Institution Instruments

You can find more information at: www.eumayors.eu

Panel 3: Practitioners to present funding opportunities and projects enabled by sustainable finance

MuniFin

- **Rami Erkkilä (MuniFin) on subnational municipal credit institutions and examples of financing projects relating to climate change mitigation and adaptation**

What is MuniFin and what product do they offer?

MuniFin is the **leading provider of financial services to Finland's municipal sector and housing production**. It is a 100% Finnish public sector-owned credit institution, owned by Municipalities (53%), KEVA, a local government pension institution (31%) and the Republic of Finland (16%).

All funding provided is explicitly guaranteed by the Municipal Guarantee Board (MGB). Its ratings are in line with those of the Finnish sovereign. It is a credit institution supervised by the ECB and is of systemic importance to the Finnish financial system.

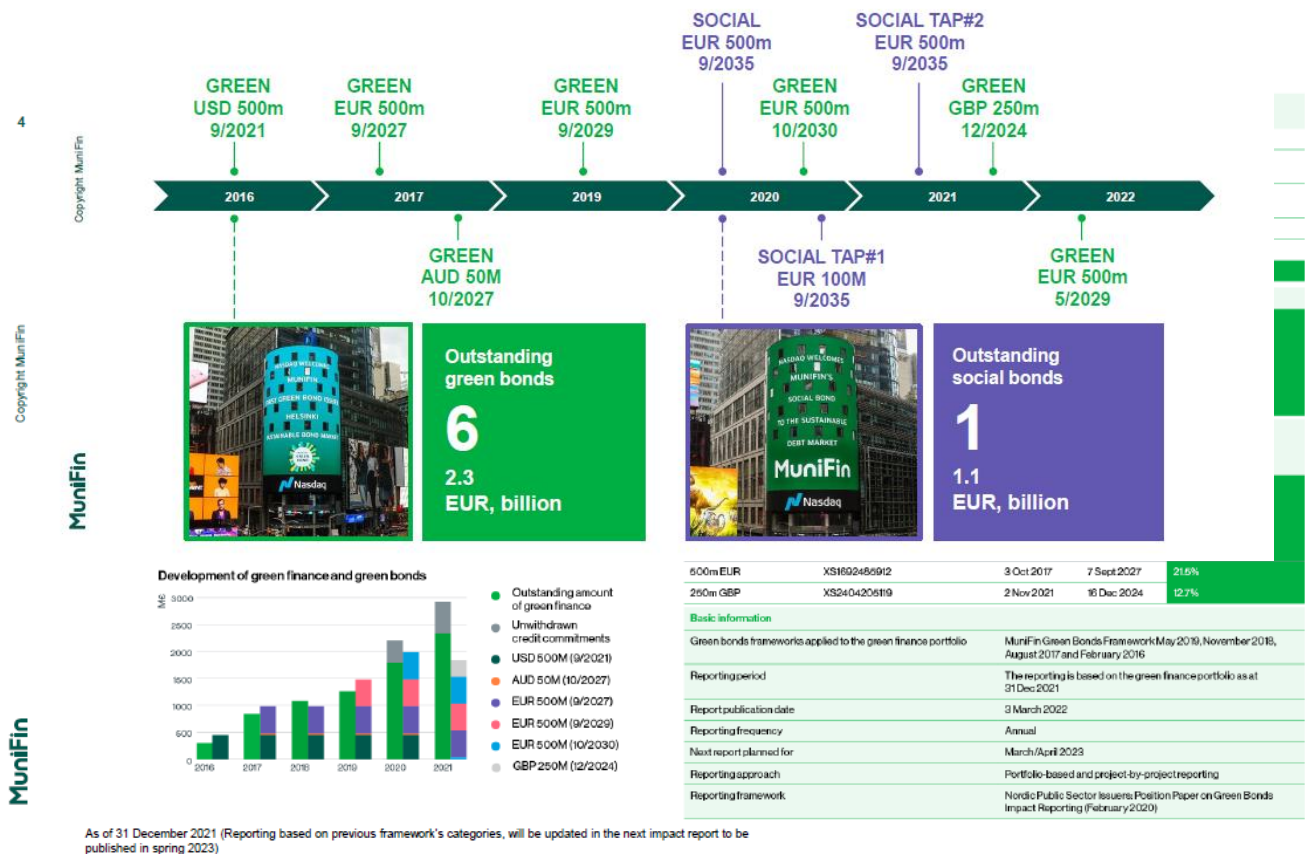
MuniFin performs the same role for municipalities in Finland as the State Treasury does for the government, with the difference however that MuniFin's customers are able to acquire funds for investment competitively, from the commercial market or regular banking market. In addition, MuniFin is not only a lender since it also has recourse to normal commercial banking as well as institutions such as the EIB.

In 2016, to fund green loans and leases, MuniFin pioneered the first green bond launch in Finland with the issuance of seven green bonds. Today, its outstanding green bonds account for EUR 2.3 billion and MuniFin is planning to launch its next one in the near future.

Its offer covers other sustainable products as well such as its social bond framework issued in 2020.

3

Green and social bonds



MuniFin has financed the renovation of sustainable buildings and sustainable public transportation mostly through its green instrument. Indeed, at the end of 2021, 195 projects totalling EUR 2.3 billion were financed through green loans and leases and their green portfolio overall amounted to EUR 3 billion.

Over time, the use of impact indicators has grown constantly, reflecting investors' interest in having a clear picture of the activities being managed by the bank and the impact achieved by those activities climate-wise. The impact indicators rely on calculus and the reporting of information, the collection of which represents a real burden for MuniFin's customer base (project owners).

Illustration of MuniFin's work: two case studies

Ivalo's education centre

The first example involves the construction of a new education centre in Ivalo, the area with the largest population in the Municipality of Inari. This modern school complex is being built amid the rugged northern landscape along the Ivalo River. The building will cover around 9 000 square meters and

accommodate up to 500 pupils, ranging from pre-schoolers to upper secondary school students. Consolidating operations on these modern premises will achieve clear cost benefits, while also guaranteeing children and young people first-class teaching facilities that are safe and, above all, healthy. The centre will also offer a top-of-the range auditorium, a central kitchen and a full-size sports hall that will serve the entire community. The centre's design was inspired by the stunning nature found in Lapland and the location's riverside views.

This project is MuniFin's northernmost project and unlocked EUR 27 million in financing for several reasons. First, even though the Municipality of Inari's population is small, with only 7 000 inhabitants, it is the largest municipality in Lapland in terms of area. Second, the project is very energy-efficient, exceeding the EU taxonomy requirements for sustainable buildings by an impressive 24%. Indeed, even if it were 10% less energy-efficient, the taxonomy-aligned Ifalo project would still meet the Finnish National Code requirements for sustainable buildings, which are stricter than the EU taxonomy's. Finally, this project also got high marks for sustainability with respect to its construction materials and methods.

Blominmäki wastewater treatment plant, Espoo

This second project received EUR 75 million in funding from MuniFin. It consists of the construction of the Blominmäki wastewater treatment plant in Espoo, scheduled for completion in 2022. It will replace the current Suomenoja treatment plant, dating back to 1963, whose capacity is no longer sufficient to meet future needs.

The treatment goals established for the Blominmäki plant will be stricter than under the EU requirements and the Helsinki Commission recommendations. The target is for treatment that removes more than 98% of the phosphorous and more than 90% of the nitrogen from wastewater.

Environmental considerations have been accounted for at all stages of the planning process. The Blominmäki plant will be mainly constructed deep inside bedrock, leaving the land on top of the caves mostly unchanged and allowing for its continuous use as a recreational area. The treatment plant will also achieve almost full energy independence – it will generate more than half of its electricity needs and exceed its heating energy needs. It represents the largest ever investment made by HSY, the Helsinki Region Environmental Services Authority.

MuniFin chose to invest in this project because the wastewater treatment plant is ambitious, modern and will achieve almost full energy independence. It is also high capacity, which is favourable in terms of environmental impact. Even better, it will be able to process the wastewater of more than half a million people.

European Investment Bank

- **Assen Gasharov (EIB) on EIB funding opportunities**

European Investment Bank activities

The [European Investment Bank](#) (EIB) is the financial arm of the European Union, helping to implement policy set by the European Commission and the European Parliament. It refers to itself as the EU Climate Bank (you can find its roadmap [here](#)) and as being in the vanguard in climate finance among the world's leading multilateral, national and commercial banks.

Indeed, it launched its "Climate Awareness Bond" (CAB) in 2007, the de facto first green bond to finance climate-related projects. Today, more than 50% of their financing activities and projects are taxonomy-aligned or directly support climate change mitigation and environmental sustainability. Since 2012, the EIB's climate lending has amounted to EUR 200 billion.

Furthermore, the EIB is the first multilateral bank to be fully aligned with the Paris Agreement, which means that not only do half of their projects directly contribute to climate mitigation or adaptation but the outputs of the other 50% do not negate the positive effects of climate-aligned projects. The EIB is truly committed to delivering the Paris Agreement's goals; last year, the EIB's overall financing reached a record EUR 95 billion.

The EIB remains fully aligned with the EU Taxonomy on sustainable finance, which bears the imprint of their contribution with respect to technical criteria and scope.

Last year, the EIB invested EUR 27.6 billion in green investments across various sectors such as:

- Climate change adaptation (1.3 bn)
- Renewable energy (5.7 bn)
- Research, development and innovation (1.6 bn)
- Low-carbon transport (9.1 bn)
- Energy efficiency (4.7 bn)
- Other climate change mitigation (4.1 bn)
- Other environmental sustainability financing.

EIB financial products

The EIB offers a wide range of financial products at all different levels, including for the public and private sectors and at national and subnational levels. There are three main categories.

Loans

As a bank, the EIB's main activity is to make loans:

- Direct loans earmarked for specific projects such as infrastructure development.
- Intermediated loans, which consists of the EIB financing local commercial banks so that they can in turn open credit lines for smaller projects. Local and regional authorities, on account of the size of their projects, have to resort primarily to local commercial banks.

- Blending options, a combination of loans and grants whereby the grants come from national sources as well as European sources such as the ESIF.

EIB loans are attractive because of their low interest rate. Current circumstances make it less obvious as high inflation has brought down all interest rates to very low levels. Another strong point is the option of securing a long-term maturity loan, which banks do not typically offer. For example, loans touching on energy efficiency or renewable energy can mature in 25 years' time, usually quite rare.

It is important to understand that the EIB only co-finance projects. Typically, the EIB's participation is capped at 50% which means that additional sources of financing are needed. However, in the case of sustainable projects, the EIB is willing to co-finance up to 75%, which gives projects more credibility and increases their chances of finding other co-financing partners.

With respect to blending options for loans, if the EIB is funding 50% of a project, the remaining 50% to be financed cannot be sourced from a European Fund. This is in accordance with the EU "cumul rule", which stipulates that a project can only be financed up to 70% in aggregated European funding, i.e. the combination of EIB and European funds. However, this limit may be increased up to 90% if the project concerned involves a cohesion region, i.e. one classified as a less developed region under the relevant European criteria.

The following links of interest regarding loans to the public sector can be found on the EIB website:

- <https://www.eib.org/en/products/loans/public-sector/index.htm>
- <https://www.eib.org/en/products/loans/framework-public-sector/index.htm>

Guarantees

Guarantees constitute the second category of product available in support of sustainable financing. They usually originate from the Commission's programs and the EIB is mandated to manage the funds on the EC's behalf. Two examples of guarantees at work are the [Private Finance for Energy Efficiency](#) (PF4EE) initiative and the [InvestEU](#) Fund.

Guarantees facilitate the pulling in of investors and enable other banks to reduce their interest rates. It effectively provides extra insurance as the borrowers also receive a guarantee from the EIB that should a project ever fail – for example, in the case of financing involving one of the previously mentioned funds – the money will still be repaid to the creditors. This also means that the credit risk to other banks financing this project is lower, further incentivising them to join the project.

Technical assistance package

The last product offered by the EIB is the [technical assistance package](#). This package can be greatly beneficial to project owners as they can obtain advice during the preparatory and development phase to ensure the best chance for a successful high quality project without running the risk of over delivering on targets. Several programs exist, such as [ELENA](#), which specialises in energy efficiency, renewable energy and urban environment. Another one is [JASPERS](#), which helps developing projects receive funding from the European Structural funds.

The EIB itself also has an in-house advisory team, the [EIB Advisory as well as the Invest EU advisory hub](#) which helps developing projects by providing support and assistance to best utilise European funding programs across different sectors.

The three groups of products can be combined, i.e. one project could benefit from a loan, a guarantee and technical assistance. Different criteria apply, but as a general rule, projects from the municipal, regional or national level may request support under each of these packages.

Case study: Picardy residential energy efficiency, France

The EIB provides a concrete example of a project that has benefitted from different instruments. The project involves energy efficiency in residential buildings in the Hauts-de-France region (formerly the Picardy region).

Since the targeted population's income was typically lower than the rest of the country's, the idea behind the project was to provide assistance and additional support through the renovation of their dwellings, thereby improving their living standards while also achieving positive environmental impacts.

Improvements have focused on individual single-family houses as well as multi-family buildings and have been ongoing for the past five years. So far, 622 single-family houses and several multi-family buildings, benefiting thousands of families, have been renovated as a result.

Besides the benefits from renovating, this project has secured other positive impacts, including energy savings (18 GWh/year), CO₂ savings (3400 tCO₂/year) and job creation (180 full-time jobs). This is what was assessed from studying only the direct supply chain but there may be other broader effects if we look beyond the project itself.

How does it work?

From an operational point of view, the first step consisted of the EU setting up an entity to carry out the work. The region took the initiative of establishing a service to support residences with their home renovation. This public energy efficiency service, or SPEE ([Service Public de l'Efficacité Énergétique](#)), essentially works as a one-stop-shop for energy efficiency where people come, receive advice and full support from beginning to end.

The Region invested some of its budget to set up the shop and also received a grant from the EU under the Intelligent Energy Europe program, one of the sub-operational programs under the Competitiveness and Innovation Framework Program (CIP) that ran from 2007 to 2014 ([link](#)). All the current funding programs for energy efficiency can be found [here](#).

Eventually, the entity put together a realistic portfolio covering the next two years that targets around EUR 58 million in energy efficiency renovation investments. At the end of the first period, it has only achieved EUR 33 million but is not off-schedule.

Although not exactly typical of such an entity, the one-stop-shop did not limit itself to mere technical assistance, but also offered to provide loans to low-income families for the implementation of their

projects. A revolving fund was set up by the region, with very long-term maturity loans (15 to 25 years maturity), enabling the whole supply chain (both technical and financial).

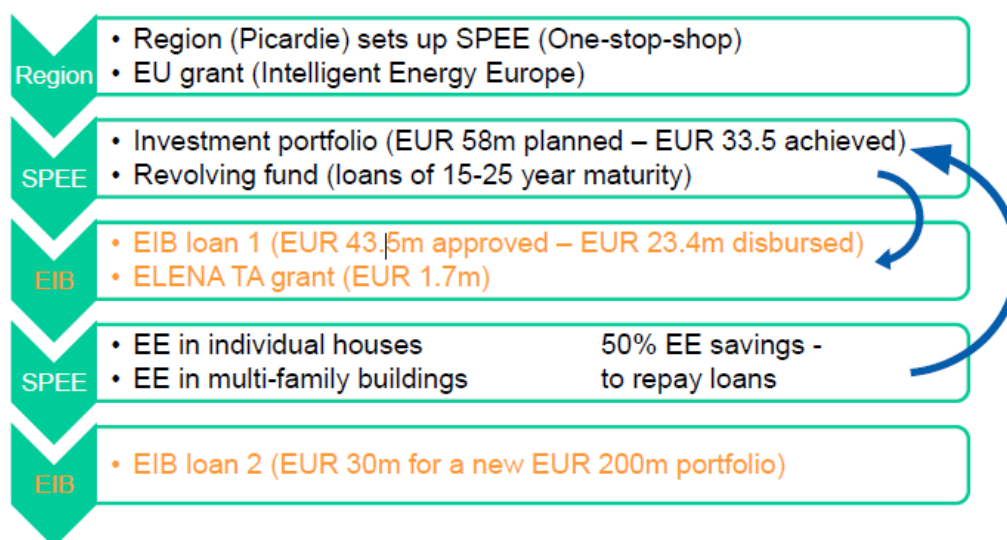
The region then approached the EIB, which gave them an initial loan of EUR 43.5 million, of which only EUR 23 million were disbursed. This loan was 75% financed by the EIB, with the remaining 25% financed by other investors. In addition to the loan, the EIB approved a grant of EUR 1.7 million under the ALENA Technical Assistance program, which was directly funding all the services of the one-stop-shop. On average, the project achieved 50% in energy savings which translates into 50% cost savings. These savings were used to pay back the loans to the public entity, which were then used by the public entity towards repayment of the loans to the EIB. This project thus represents a perfect example of the collaboration of entities creating a virtuous circle.

In reality, the households continue to pay the same energy bills as before, which means that half of their expenditure goes towards utility bills and the other half towards the repayment of these loans. However, even though residents have not seen a change in their out-of-pocket costs, there has been an improvement in their way of life, the quality and value of their properties, not to mention improved energy performance and longevity.

Given the marked success of this programme, a second loan request of EUR 30 million was made to the EIB. The target portfolio now represents EUR 200 million invested in energy efficient renovation. This seed funding has thus increased exponentially, producing a bigger impact and making it even more exemplary.



Case study: Picardie Residential energy efficiency, France



NB: The list of recently approved EIB projects can be consulted [here](#).

Open floor discussion between the panellists and participants

Question 1: In the case of EU municipalities with development cooperation ties with a non-EU country, would you still consider lending to the EU municipalities?

Answer: First of all, the EIB works within and outside the EU; 90% of the volume is within and the other 10% (EUR 7-8 billion) outside of the EU. Each project is evaluated on its own merit; so if there is a project involving different countries, the EIB would assess the circumstances and undertake a risk assessment, a technical viability assessment and a financial assessment. Even though the EIB tries to not be political, if the project includes a country that does not respect the EU's political dimension, then the project risks being compromised.

Other information

Participants

Target group: Politicians from Europe (mayors, vice mayors, councillors). Technical staff or advisers can join as "observers". As of 21 October, CEMR received 112 registrations (accessible [here](#)). During the event, CEMR registered an additional 42 participants. Of those registered, 48.2% identified as men, 40.9% as women and 0.9% did not wish to disclose their gender. The age category breakdown was the following: under 24 (6.3%), 24 to 34 (24.1%), 34 to 54 (46.4%) and over 55 (24.1%). In terms of geographical range, 46 European and non-European nationalities were present. Most participants were from Germany (26), followed by 12 participants from Belgium, and 8 from Spain. With respect to participants' organisational credentials, the majority represented public bodies, particularly local and regional governments. However, there were also delegates from associations, higher education institutions and various international organisations who registered for the event.

To help them prepare for the training, all registered participants received a background note (accessible [here](#)) containing useful key concepts and terminology to more easily follow the panels and open floor discussions.

Trainers and speakers

The guest speakers are all leading professionals with a high degree of knowledge of their respective disciplines, which gave CEMR the opportunity to present the concept of sustainable finance from an informed academic, regulatory, technical and practical perspective. The speakers included:

- Laurent Lascols, Lecturer at Dauphine-PSL University, Paris
- Serge Giacomotto, Policy Officer, DG for Climate Action of the European Commission
- Isabelle Chatry, Head of Unit – OECD Centre for Entrepreneurship, SMEs, Regions & Cities
- Pedro Bizarro, Project Lead, Covenant of Mayors for Climate and Energy – Europe (CoM) & Reference Framework for Sustainable Cities (RFSC)
- Rami Erkkilä, Senior Specialist, Sustainable Finance – MuniFin
- Assen Gasharov, Senior Expert, Sustainable Energy – European Investment Bank
- Marlon Hilden, CEMR Moderator



7th Training Academy for Politicians

Sustainable Finance for Climate Change Mitigation and Adaptation

Media references to the Training Academy

A press release about the Academy was published on CEMR's website and some online activities are available via LinkedIn:

- Local leaders explore how to mobilise sustainable finance at local and regional level, available at: <https://ccre.org/en/actualites/view/4386>
- 7th Training Academy for Politicians, available at: https://www.linkedin.com/posts/council-of-european-municipalities-and-regions_terms-like-sustainable-finance-or-taxonomy-activity-6991410767057055744-8-PN?utm_source=share&utm_medium=member_desktop

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7th Training Academy for Politicians

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