

Promoting Green Finance through Multilateral Development Banks – The Experience of Romania

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Abstract: Achieving the ambitious climate goals established on the international agenda for boosting sustainable development involves significant financial resources. Therefore, the funds allocated by the financial system for green investments should increase globally. Against this backdrop our paper investigates the role of multilateral development banks in promoting green finance, with focus on Romania. The research results underline their engagement to combat climate change and to support sustainable development. The European Investment Bank, The European Bank for Reconstruction and Development and the International Finance Corporation have major contributions in financing green projects in Romania in areas such as energy efficiency, green building, clean transportation, sustainable agriculture. To this end they established some partnerships with Romanian financial institutions, granted financing facilities, invested in the green bonds issued by local banks, provided technical assistance. However, our main finding shows that green finance in Romania is still limited, requiring increased commitments in this area, including from multilateral development banks.

Key words: climate change, green finance, multilateral development banks, sustainable development, Romania

JEL codes: G21, G22, G23, G28, Q56.

1 Introduction¹

The negative effects of climate change strengthened the need to push the accomplishment of international agenda regarding sustainable development. In this context, on 25 September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development, which highlights 17 Sustainable Development Goals, covering "the three dimensions of sustainable development: the economic, social and environmental". The Goal 13 highlights the need to combat climate change (United Nations, 2015). Subsequently, on 12 December 2015, the Paris Agreement, an international treaty on climate change, was also adopted with the objective "to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty". The Agreement aims to limit the increase in global average temperature to below 2 degrees Celsius above pre-industrial levels (and even to below 1.5 degrees Celsius) as well as to reduce greenhouse gas (GHG) emissions (UNFCCC, 2016).

In line with these international initiatives, in 2019, the European Green Deal was adopted. It has the ambitious climate goal of "making Europe the first climate-neutral continent by 2050" (European Commission,

¹ This paper is based on authors' contribution to the study "Green finance in Romania in the context of European initiatives and programs. Analysis of the current state and measures for improvement", coordinated by Claudia Gabriela Baicu, PhD., the Romanian Academy, the National Institute of Economic Research "Costin C. Kiritescu", the Institute for World Economy, Bucharest 2023.

2021). Hence, the European Commission adopted on 14 July 2021 a package of proposals aimed at reducing net GHG emissions at the EU level by 55 percent by 2030 (as comparison, the 1990 levels were taken into consideration) (European Commission, 2021).

However, these targets require very significant financial resources. Thus, in order to achieve the Sustainable Development Goals, global investments are needed, which, according to the United Nations Conference on Trade and Development, can range between USD 5 trillion and USD 7 trillion per year (UNCTAD, 2014). On the other hand, recently, the International Renewable Energy Agency estimated that achieving the 1.5 degrees Celsius climate goal agreed by the Paris Agreement requires annual investments of more than USD 4.4 trillion (IRENA, 2023).

Against this background, an important role is assigned to green finance which, among others, includes financing of green investments (Berensmann, Lindenberg, 2016). The greening of the financial system is promoted by important actors including banks and international financial institutions (Berensmann, Lindenberg, 2016).

Starting from these considerations the objective of this paper is to investigate the role of multilateral development banks (MDBs) in driving green finance in Romania. According to the above-mentioned objective the remaining of the paper is structured as follows: the first part overviews the role of the MDBs in sustainable development with focus on the European Investment Bank (EIB) while the second part presents some relevant contributions of the MDBs on green finance development in Romania.

2. The role of multilateral development banks in sustainable development

In September 2014, the EIB together with other MDBs - the African Development Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the World Bank Group and the IDB - reaffirmed their engagement "*to the implementation of ambitious climate action both to combat climate change and to manage its inevitable consequences*". Among other things, their commitment towards climate finance includes lending, guarantees, technical assistance, promoting harmonization and transparency in the field (EIB, 2014).

The latest edition of the Joint Report on Multilateral Development Banks' Climate Finance highlights remarkable progress in tackling climate change mitigation and climate change adaptation. In 2022, USD 60.9 billion was allocated for low-income and middle-income economies while USD 38.8 billion was directed for high-income economies. The great part of these funds (94% of the total for high-income economies; 63%, for low- and middle-income economies) was allocated for climate change mitigation finance. Thus, at the global level, the MDBs climate finance has reached nearly USD 100 billion in 2022, an important increase from USD 82 billion in 2021 (EIB, 2023a), highlighting the growing role of the MDBs in promoting green finance.

It is important to note that many MDBs adopted post-2020 climate finance targets. Moreover, some MDBs - for example, the Asian Infrastructure Investment Bank - set such a target for the first time (Neunuebel, Sidner, Thwaites, 2021). This is a further proof of the MBDs increased engagement towards sustainable development.

The EIB has committed that 50% of its lending activity will support climate action and environmental sustainability by 2025. Another major measure of the bank refers to the cessation of financing fossil fuel projects at end-2021. The bank has also established that all its financing activities to be aligned with the Paris Agreement (European Parliament, 2023). During 2021-2030, the EIB Group intends to allocate EUR 1 trillion for investments supporting climate action and environmental sustainability (Spinaci, 2021).

In addition, the EIB established as one of its strategic objectives to contribute to the development of the green bond market. Consequently, since its first issuance of Climate Awareness Bond (CAB) in 2007, the EIB's role in the green bond market strengthened both in terms of issuance volumes – EUR 33.7 billion of CABs between 2007 and 2020 – and "*in developing market governance, standards and practices*". It is worth mentioning that the EIB supported the development of the Green Bond Principles - "*the first standardisation initiative in the green bond market*" (EIB, 2021). In this context, it should note the pioneering role of the EIB in green finance (Spinaci, 2021).

At its turn, the EBRD also established that more than 50% of its annual commitments to support green finance by 2025 (EBRD, 2020). By comparison, the EBRD pre-2020 target was 40% of its commitments for environment/climate financing (Neunuebel, Sidner, Thwaites, 2021). Therefore, the new EBRD's Green Economy Transition approach for the period 2021 to 2025 strengthened its commitment towards sustainable development.

3. Some contributions of multilateral development banks to promote green finance in Romania

EIB

In 2023, the EIB Group marked 30 years of partnership with Romania. During this period, the EIB financed over 170 projects with more than EUR 17 billion (EIB, 2023b). Investments in energy efficiency improvements represent an area of great interest for the EIB. To illustrate, the EIB signed a EUR 20.9 million loan in 2023 with the authorities from the Municipality of Oradea to support urban regeneration, urban transport and energy efficiency measures and a EUR 30 million loan with the authorities from Bucharest to boost energy efficiency of residential buildings (EIB, 2023b). We should underline that the EIB contribution in both cities is significant and long-lasting. The bank provided over EUR 480 million between 2005 and 2015 to finance energy efficiency investments in Bucharest. Its commitment towards the city of Oradea began as early as 2008 (EIB, 2018).

In addition to municipalities, the EIB also paid attention to other categories of customers, including small and medium enterprises (SMEs). Thus, in 2019, the bank provided EUR 185 million credit lines to its Romanian partners in order to finance projects of SMEs and municipalities supporting, among others, energy, environmental protection and innovation (EIB, 2020).

Besides financing of green projects, the EIB's activity in Romania consisted in the consultative support provided to the National Committee for Macroeconomic Supervision's Working Group on Green Finance to elaborate recommendations to green the Romanian financial sector (Badea, 2023).

EBRD

The EBRD provided EUR **100 million for the residential** GEF (Green Economy Financing Facility) in Romania. Its local partners were Banca Transilvania, UniCredit Bank and UniCredit Consumer Financing. These financial institutions used the funds received from the EBRD for green home mortgages and green personal loans (Table 1).

Table 1: GEF provided by the EBRD in Romania

Local participating financial institutions	GEF financing (EUR million)	Number of beneficiary households	Type of investment
Banca Transilvania	40	1,757	<ul style="list-style-type: none"> • Energy-efficient homes • Green household technologies
UniCredit Bank	35	602	<ul style="list-style-type: none"> • Energy-efficient homes
UniCredit Consumer Financing	25	5,836	<ul style="list-style-type: none"> • Green technologies and equipment for the home

Source: Authors' elaboration based on GEF, EBRD (2023a).

Similar to the EIB, the EBRD operations in Romania targeted municipal borrowers and SMEs. The EBRD Municipal Energy Efficiency Financing Facility (MEEFF) in value of EUR 17 million was granted to financial institutions in Hungary and Romania for investments related to energy efficiency and renewable energy. On the other hand, the Romania Sustainable Energy Financing Facility (RoSEFF) (EUR 75 million), addressing the commercial sector, was provided to the following financial institutions: Banca Comercială Română, BRD Groupe Société Générale, Banca Transilvania and BT Leasing as well as UniCredit Bank (GEF, EBRD, 2023b).

It is worth mentioning that Banca Transilvania and Unicredit Bank were among the most important beneficiaries of the credit facilities received from the EBRD. Within the Romanian banking sector, Banca Transilvania - an institution with majority domestic capital - ranks first by net assets with a 19.11% market share (as at 31 December 2022). Unlike Banca Transilvania, UniCredit Bank (8.62% market share) is a credit institutions with majority foreign capital (BNR, 2023a) that is part from the pan-European Group UniCredit, with presence across Italy, Germany, Central and Eastern Europe (UniCredit, 2023). In fact, credit institutions with Italian capital hold an important share in the Romanian banking sector (9.2% of total net assets, June 2023) along with credit institutions with Austrian capital (23.2%), Dutch capital (11.5%) and French capital (10.7%) (BNR, 2023b).

Concerning the EBRD's role in Romania we should also underline its consultative support provided to the National Committee for Macroeconomic Supervision's Working Group on Green Finance (Badea, 2023).

International Finance Corporation (IFC)

A significant contribution to mitigating the negative effects of climate change in Romania belongs to the IFC, "the largest global development institution focused on the private sector in emerging markets" (IFC, 2023a).

In May, 2021, the IFC invested the equivalent of USD 20 million in the first green bond issued by a local bank, namely Raiffeisen Bank that is a member of the Raiffeisen Group. This initiative was based on the longstanding relationship between the IFC and Raiffeisen Bank build even since 2004. The proceeds from the bond was used to finance climate finance projects in areas including green building, sustainable agriculture, clean transportation (IFC, 2021a). Following this investment, in June, 2021, the IFC invested the equivalent of approximately USD 72 million in the Raiffeisen Bank's second green bond (IFC, 2021b). Later, in November 2023, the engagement of the IFC towards sustainable growth in Romania strengthened by investing EUR 50.8 million in a sustainable bond issued by Raiffeisen Bank (IFC, 2023a).

However, the collaboration between the IFC and the Raiffeisen Bank in green finance field has started prior to these bond investments. We remember the IFC's RON 720 million (USD 168 million equivalent) financing package in 2019 to increase the bank's ability to finance climate, housing and small and medium enterprises (IFC, 2019). Raiffeisen Bank is another large bank in Romania, holding 8.85% of market share (end-2022) (BNR, 2023a).

In the fiscal year 2023, the IFC contributed to the developing of climate financing in Romania by investing EUR 100 million in the green bonds issuance of Banca Comercială Română (IFC, 2023b). Banca Comercială Română ranks second within credit institutions in Romania, with a market share of 13.95% (as at 31 December 2022) (BNR, 2023a).

The contribution of the IFC to finance green housing in Romania includes the investment in the UniCredit Bank S.A. senior bonds issuance performed in 2022, as part from the approved amount of USD 80 million in the bank's Euro Medium Term Notes Programme (IFC, 2022d).

In 2023, to address energy-inefficient housing supply in Romania, the IFC also provided a EUR 100 million financing facility to Banca Transilvania. This new initiative is part of a subordinated bond financing package (EUR 200 million) alongside the Asian Infrastructure Investment Bank (Banca Transilvania, 2023). The IFC supports Banca Transilvania through consultancy projects too. It is worth remembering that the partnership between Banca Transilvania and the IFC is also long-lasting, dating back, as in the case of Raiffeisen Bank, in 2004. (Banca Transilvania, 2022).

Besides investing in green bonds issued by banks, the IFC has also invested in green bonds issued by other category of issuers. To illustrate, in 2021, the IFC invested EUR 42.5 million in a green bond issued by CTP N.V., the largest industrial property developer and manager in the Central and Eastern European region. This investment is used to develop green-certified buildings both in Romania and Serbia (IFC, 2021c).

The IFC's activity in supporting green transition consists in granting green loans too. Thus, the first IFC's green loan extended to a domestic company (Palaus Campus) financed an eco-friendly complex with approximately EUR 72 million (IFC, 2021d).

Similarly, in July 2022, the IFC granted EUR 85 million to Globalworth Holdings Cyprus Limited to promote green commercial projects in Romania (IFC, 2022a). The IFC's attention also turned to the residential sector. To this end, the global development institution provided a EUR 40 million loan to Garanti BBVA Romania to finance green housing in Romania (green loans for home improvement, green mortgages, etc.) (IFC, 2022b).

Moreover, with the EUR 100 million loan provided to Banca Transilvania in 2022, the IFC was responsible for the first blue funding in Central and Eastern Europe. Based on the IFC support, Banca Transilvania can finance projects of micro, small, and medium enterprises in Romania for sustainable use of water including sustainable agricultural irrigation (IFC, 2022c).

We should underline the fact that the IFC involvement in the private sector in Romania is not limited only to the banking sector. For example, one of its investments targets UniCredit Leasing Corporation IFN, a non-bank financial institution; the IFC will invest up to EUR 50 million to finance climate projects and small business (IFC, 2023c).

Despite all these achievements, green finance in Romania is still limited, accounting for only 4 percent of total exposures to the non-financial corporations sector (end-June 2021) (BNR, 2021). Therefore, increased commitments of financial institutions, including multilateral development banks is required.

4. Conclusions

Due to the negative consequences of climate change strengthened and ambitious climate objectives have been established through the international agenda on sustainable development . However to meet these objectives significant financial resources are required and financial institutions, including the MDBs, can play an important role in fostering green finance. MDBs affirm their commitments towards green investments. In addition, some of them established post-2020 climate-targets, which reveals once more their growing interest in the field. They made some progress regarding those targets while allocating funds for both climate change mitigation and

climate change adaptation. However, the funds directed towards climate change adaptation finance are low compared to those for climate change mitigation. Therefore their share in the total of the MDBs funding should increase. Apart from lending activity, the MDBs have a pioneering role in development green tools and practices, another crucial dimension for green finance development. To this respect, one can mention the EIB role on green bond market.

The activity of the MDBs in Romania in the field of green finance includes providing financing facilities, making investments in green bonds issued by local banks, providing technical assistance. The EIB, the EBRD and the IFC are among the most active MDBs in Romania, contributing to green projects financing in areas such as energy efficiency, clean transportation and green buildings, but our main finding is that green finance in Romania is still limited, requiring increased commitments in this area, including from multilateral development banks.

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