

# Greening Credit Guarantee Schemes

*From ambition to action*

**AECM Annual Meetings**

**“Guarantees for economic recovery and  
to foster sustainable investments”**

**September 23-24, 2021**

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# The Climate Debate

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- Is there an emergency?
- Will we address it?
- How to pay for the green transition?

# Code Red for Humanity

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- Global surface temperature was 1.09C higher in the decade between 2011-2020 than between 1850-1900.
- The past five years have been the hottest on record since 1850.
- Human influence has warmed the atmosphere, ocean and land.
- Temperatures will reach 1.5C above 1850-1900 levels by 2040 under all emissions scenarios.
- Increasing occurrence of some extreme events "unprecedented in the historical record" even at warming of 1.5C.
- Likely increases in fire weather in many regions.

# COP26 Goals

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- Secure global net zero by mid-century and keep 1.5 degrees within reach
  - ✓ Countries are expected to come forward with (more or less) ambitious 2030 emissions reductions targets that align with reaching net zero by the middle of the century.
  - ✓ Countries will need to accelerate the phase-out of coal, curtail deforestation, speed up the switch to electric vehicles, and encourage investment in renewables.
- Adapt to protect communities and natural habitats
  - ✓ To enable and encourage countries affected by climate change to protect and restore ecosystems, and build defenses, warning systems and resilient infrastructure and agriculture

# Turning Billions into Trillions

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- Achieving the goal of net-zero GHG by 2050 requires an immediate expansion of annual investment in clean and efficient energy use and transport (up to US\$ 100 trillions).
- Public action and support can attract private investment by reducing the cost of capital of green projects (green technologies are not always commercially viable, making them more expensive and riskier ventures).
- PCGSs have the potential to consolidate their role as the policy instrument of choice to de-risk and mobilize private green investment.
- But PCGSs need to adapt their business models and strategy, governance and risk management, and disclosure and reporting (*build or renovate?*).

# Mainstreaming Climate Action within PCGSs

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- Committing to climate strategies
  - ✓ Building climate change considerations into the strategic direction and vision of the PCGS as well as through its actions.
- Managing climate-related risks
  - ✓ Understanding and addressing climate change risks in the PCGS's existing portfolio and operations, as well as pipeline and future guarantees.
- Promoting climate smart objectives
  - ✓ Working with lenders and stakeholders to create opportunities for increasing climate smart investment.
- Accounting for climate performance
  - ✓ Tracking, monitoring, incorporating climate considerations into day-to-day operations and disclosing climate information.

# Committing

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- Integrate PCGSs into the government’s policy framework and ensure that supportive policy and regulatory frameworks are in place.
- Adopt clear and stable “green” mandate that includes supporting national development strategies.
- Embed climate-related considerations into strategy and align strategy objectives with NDCs.
- Ensure PCGSs are well resourced and have sufficient capital, including tapping new sources (e.g., CO2 taxes, climate funds etc.).
- Build an effective governance and management structure that demonstrates understanding of the structural nature of climate change.

# Managing

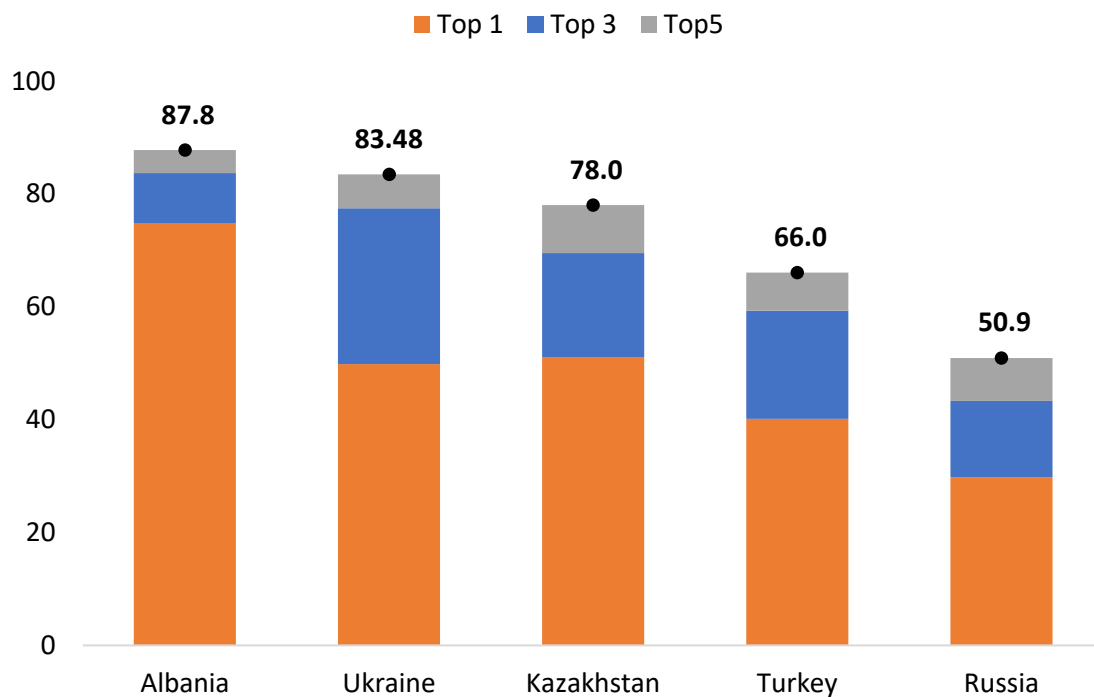
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- Identify how climate-related risks (physical and transition risks) may impact the PCGS' outstanding and future portfolio.
- Assess the materiality of climate-related risks (scenario analysis).
- Monitor material climate-related risks at portfolio and client level.
- Mitigate material climate-related risks through risk reduction (e.g., access to counter-guarantees and insurance, etc.) and avoidance (e.g., integrate climate-related considerations into due diligence, adopt exclusion policy, etc. ).

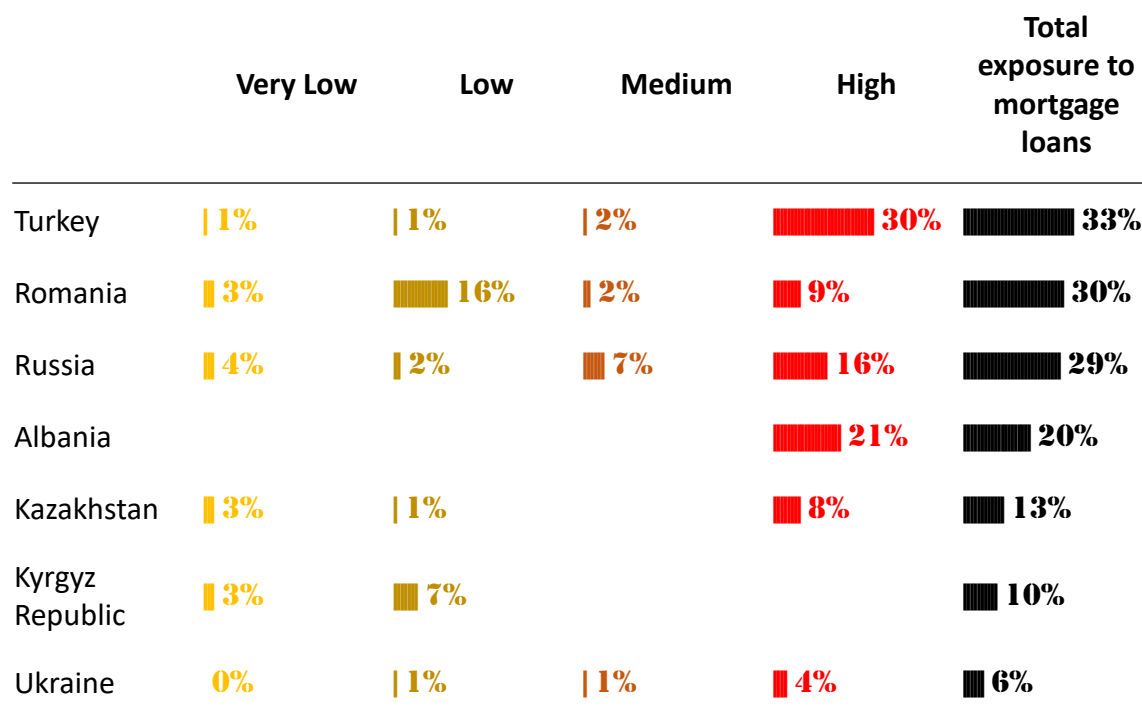


# Physical Risk in ECA May Be Material

**Concentration of banks' credit portfolio across first-level administrative units, selected ECA economies - 2019**  
(Percentage of total credit portfolio)

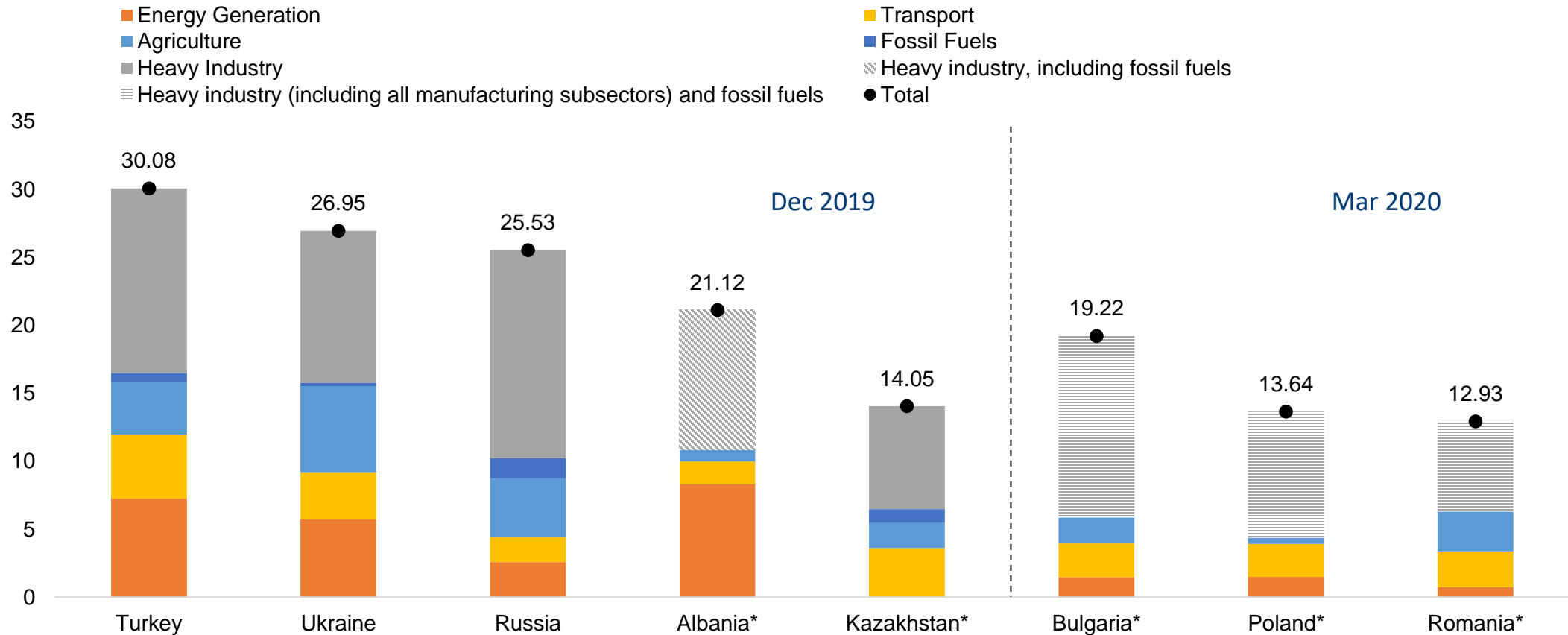


**Mortgage loans exposure to floods by hazard level, selected ECA economies - 2019**  
(Percentage of total credit portfolio)



# Transition Risk in ECA May Be Material

*Sectoral breakdown of credit portfolios by transition-sensitive industries, selected ECA economies  
(share of total credit portfolio)*



# Promoting

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- Align eligibility criteria (for borrowers and lenders) with green mission and strategy.
- Factor climate-rated considerations into product offerings regarding the use of the proceeds (e.g., green loans), and/or the characteristics of borrowers (e.g., sustainability-linked loans).
- Develop new products (e.g., disaster risk guarantees - like in Japan, equity guarantees, etc.)
- Set guarantee coverage in line with eligibility criteria, product offering and risk appetite.

# Accounting

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- Set up a proper M&E framework to measure and report climate performance.
- Promote active client engagement to bridge data gaps.
- Disclose carbon footprint of the guarantee portfolio in annual reports.
- Align with TCFD recommendations and other national/international guidance.

# Setting the Agenda

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## Global level

- Discuss a potential revision of some of the [Principles for the Design of PCGSs](#).

## Regional level (e.g., AECM membership)

- Survey existing market practices (gap analysis).
- Identify and quantify climate-related risks in the current portfolio.

## Country level

- Engage in policy dialogue with the government and stakeholders on the green transition.

# Thank You

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# Q&A