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UNECE | H-building, Palais des Nations, Geneva
March 19, 2024

UN Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects

Giampiero Bambagioni

Vice Chair, UNECE Committee on Urban Development Housing and Land Management
WG Coordinator, Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | Agenda

- **Endorsement | UNECE Committee on Urban Development Housing and Land Management (CUDHLM) Session** (Geneva, October 4-6, 2023)
- **Definitions of «Green Finance»**
- **Purpose of the Principles**
- **UN SDGs and green financing instruments**
- **International framework**
- **The seven UN Principles on «Green Financing»**
- **Conclusions**


Source: UNDP

The "**Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects**" (ECE/HBP/2023/3), (i.e. the "Principles") **endorsed during the UNECE Committee on Urban Development Housing and Land Management (CUDHLM) Session** in Geneva (4-6 October 2023), **are designed to guide national, regional and local governments, and other relevant stakeholders towards environmental sustainability and financial resilience in their real estate, infrastructure, and urban transformation projects**.

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | Purpose

The Principles are aimed at supporting public investments and green projects by **governments, government agencies, cities and local authorities, developers, asset managers and institutional investors also involved in PPP projects**:

- in **accessing international capital markets** in compliance with the regulatory framework, and with the aim of contributing to sustainable development;
- to promote innovation and **long-term sustainability** using the levers of: **green loans, green bonds, green mortgages, green projects**, and so on.

The Principles, specifically **designed to create the preconditions for project bankability**, draw on and are aligned with countries' international commitments, including those developed under the auspices of the United Nations, thereby supporting countries and stakeholders in their efforts to achieve these commitments.

At the same time, **green financing is an essential tool to achieve sustainable development** (SDGs): housing and industrial properties emit around 40% of greenhouse gases (CO_2), and use over 37% of energy resources.

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | Definition

«Green finance is one of a number of terms used to describe activities related to the two-way **interaction between the environment and finance and investment**».

Source: Green and sustainable finance | ISO. 2022.

According to a United Nations definition

«**green financing refers to environment-oriented financial products or services, such as mortgages, loans, insurances or bonds, which recognize the value of the environment and its natural capital and seeks to improve human well-being and social equity while reducing environmental risks and improving ecological integrity**»

In summary, **«Green financing» is a loan or investment that supports environmentally-friendly activity, such as purchasing environmentally-friendly goods and services or building environmentally-friendly infrastructure.**

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | Definitions of «Green Finance» according EBF (*)

«Green Finance includes, but is not limited to:

a. Environmental aspects (pollution, greenhouse gas emissions, biodiversity, water or air quality issues); and

b. Climate change-related aspects (energy efficiency, renewable energies, prevention and mitigation of climate change connected severe events).

For "Environmental and climate change" (ECC) considerations, risks can be classified as follows:

i. Physical risk, deriving from direct damage to property or trade disruption;

ii. Liability risk addressing who will be held responsible for the impact that will occur in the future and what this impact will be;

iii. in the case of climate change, also transition risk, financial risk arising from the transition/missing transition to a low-carbon economy».

The definition of «Green Finance», imply two types of activities:

"**Direct Green Finance**: financing of activities that directly provide environmental benefits in the broader context of environmentally sustainable development.

ECC Screening: financing of other activities while taking into account the potential exposure to "environmental and climate change" (ECC) risk factors such as;

- potential losses arising from more intense climate events (physical risks);
- potential financial difficulties stemming from non-compliance with environmental and climate change (ECC) rules (fines, withdrawal of production authorisation etc., liability risks);
- potential risk of market share reduction (e.g. as a result of increased demand for green products and development of new technologies in response to ECC mitigation which may make some existing technologies redundant (transition risks; damage to brand or image, reputational risk);
- others (e.g. increased energy costs)."

Impact of environmental factors on economy and financial stability. "However, given the potential impact on banks' loan default rate and potential large implications to financial stability it is important to incorporate climate-related criteria and the systemic risk stemming from climate change into banks' decision-making and risk modelling. It is a process that has begun, and methodology for capturing and reducing these risks is under development."

(*) See: EBF Toward a green finance framework

Basel III | The international regulatory framework for banks | Impact of environmental factors on economy and financial stability

Banks and the banking system are exposed to climate change through macro- and microeconomic transmission channels that arise from two distinct types of climate risk drivers. First, they may suffer from the economic costs and financial losses resulting from the increasing severity and frequency of physical climate risk drivers. Second, as economies seek to reduce carbon dioxide emissions, which make up the vast majority of greenhouse gas (GHG) emissions,[1] these efforts generate transition risk drivers. These arise through changes in government policies, technological developments, or investor and consumer sentiment. They may also generate significant costs and losses for banks and the banking system.

Evidence suggests that the impacts of these risk drivers on banks can be observed through traditional risk categories. The table below summarises the potential effects in each risk type:

Risk	Potential effects of climate risk drivers (physical and transition risks)
Credit risk	Credit risk increases if climate risk drivers reduce borrowers' ability to repay and service debt (income effect) or banks' ability to fully recover the value of a loan in the event of default (wealth effect).
Market risk	Reduction in financial asset values, including the potential to trigger large, sudden and negative price adjustments where climate risk is not yet incorporated into prices. Climate risk could also lead to a breakdown in correlations between assets or a change in market liquidity for particular assets, undermining risk management assumptions.
Liquidity risk	Banks' access to stable sources of funding could be reduced as market conditions change. Climate risk drivers may cause banks' counterparties to draw down deposits and credit lines.
Operational risk	Increasing legal and regulatory compliance risk associated with climate-sensitive investments and businesses.
Reputational risk	Increasing reputational risk to banks based on changing market or consumer sentiment.

Source: **Basel Committee on Banking Supervision** | Climate-related risk drivers and their transmission channels (April 2021)

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | 1

- For the United Nations, **green financing plays an important role in achieving the Sustainable Development Goals** (SDGs)
- **Infrastructure and urban transformation projects both for new construction as well as regeneration, renovation and refurbishment** (for the purpose of energy efficiency and resilience), **should aim, on the one hand, at being economically feasible and financially sustainable**, and, on the other, at pursuing a **green sustainable architecture, urban design and planning**.
- Both new construction as well as renovation and regeneration require significant financial resources. Those **resources can be through the use of private or public capital, including through mortgages and loans; or through a combination of the two through public-private partnership (PPP) projects.**
- To promote environmental sustainability of real estate, infrastructure and urban transformation projects, **ensuring the use of "green financing" instruments is crucial.**

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | 2

The Principles, **aimed at creating the preconditions for the bankability of projects**, **are based on United Nations and other international commitments** that support, among other actions, the “green financing” of real estate and infrastructure. Some of the commitments are:

- UN Sustainable Development Goals (**SDGs**)
- **The Geneva United Nations Charter on Sustainable Housing**, endorsed by the Economic Commission for Europe (ECE) on 16 April 2015
- **The United Nations Policy Framework for Real Estate Markets**
- **Place and Life in the ECE – A Regional Action Plan 2030**: Tackling challenges from the COVID-19 pandemic, climate and housing emergencies in region, city, neighborhood and homes.
- **The European Green Deal and the European Union (EU) taxonomy** for sustainable activities (i.e. the **EU Sustainable Finance Package**)
- The new Bank of International Settlement (BIS) **Basel III Agreement**

Sustainable green financing should take place in line with the following "Principles for Green Finance for Sustainable Real Estate, Infrastructure and Urban Transformation Projects"

Principles

1 | Active engagement of capital providers

Public and private capital providers shall actively engage in planning infrastructure and its construction in cooperation with governments, urban planners, developers, construction companies, other relevant stakeholders as well as with affected local communities. Such early and continuous engagement of capital providers will foster trust, ensure responsiveness to the needs of all people and consolidate shared ownership of the city's future.

2 | Climate neutrality and resilience of green urban solutions

Governments should promote, at the national and local levels, efficient public spending and use of relevant financing instruments, including taxation, aimed at reducing carbon emissions, increasing energy efficiency and the resilience of buildings and infrastructures to climate change and natural disasters.

Public and private capital providers shall be encouraged to give priority to real estate and urban transformation projects involving the construction or the renewal of buildings and infrastructure aimed at reaching the following priorities:

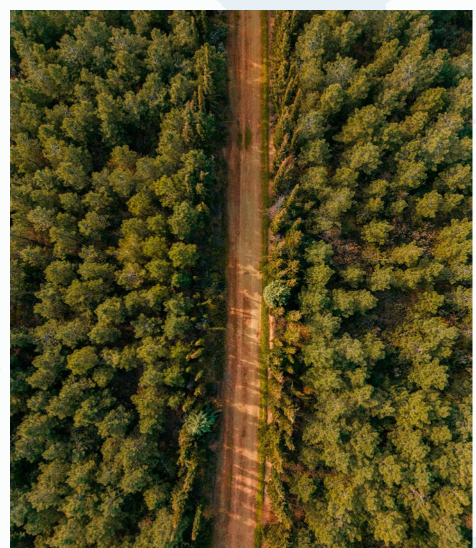
- **reduced climate footprint**
- **resilience to natural disasters**
- **use of renewable energy**
- **affordability and accessibility for all**.

Policymakers and financial operators are called upon to promote initiatives and/or partnerships for the **use of public or private capital to finance the economy's resilience to climate change in view of the transition risk** (climate change mitigation) and physical risk (climate change adaptation).

Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects | 5

3 | Social dimensions and affordability of green urban solutions

Environmental goals should not come at the expense of an affordable and inclusive built environment, including of affordable decent housing and urban infrastructure. The “do-no-harm” principle of an ESG framework should consider vulnerable groups of the population that may otherwise be excluded from improvements in the built environment. **The development of the social dimensions of ESG through principal adverse indicators (PAI) and social taxonomies are key for the comprehensive assessment of investments to ensure green investments also support the affordability of housing and urban infrastructure for all**.



4 | Innovative green financial tools

Governments and financial entities shall promote the development and introduction of innovative tools enabling all actors, including inhabitants, in the economic system to contribute with the resources at their disposal to the green development of urban areas. This will allow a sense of shared ownership of the city's future and encourage the transition towards green urban areas.

Examples of instruments are green bonds, green lending, green mortgages, green lease structures and PPPs. PPPs promote engagement of the private sector through a transparent and competitive process.

Such cooperation may take place in the form of sharing skills and knowledge between the private sector and the relevant government agencies to ensure the PPPs contribute to achieving the SDGs. What concerns the PPPs, mechanisms should be put in place that make the clauses of the deals enforceable and the private and public entities should be accountable for the achievements of the SDGs. **Relevance of each financing tool depends on the countries' legal framework and the market structure. Understanding and measuring the benefits and risks of each financial mechanism are important for identifying the most appropriate options and for implementing the appropriate projects for each country.**

5 | Improved regulatory framework to support green financing

National and supranational authorities shall develop regulations which establish a transparent and competitive framework for the engagement of private capital providers in financing of urban green projects.

The reduction of bureaucratic burdens and costs, the establishment of new special bodies focused on support to green real estate funding, application of **Key Performance Indicators (KPIs) to assess borrowers' behaviour will facilitate financing of green real estate sector and green urban transformation projects**. Such KPIs allow for a quantitative measurement and estimation of the environmental impact and the financial performance of green urban interventions. Such measuring against KPIs allow public and private players to efficiently and effectively manage and channel available financial and non-financial resources into green financing projects across borders.

6 | Ensuring long-term stability of green real estate and infrastructure financing

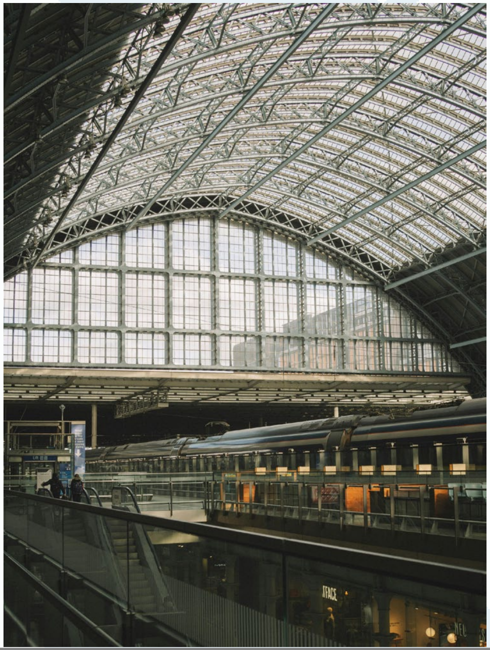
Governments and international organizations shall take measures to develop financial and regulatory mechanisms aimed at guaranteeing the long-term stability of public and private capital flows directed toward housing, buildings and green infrastructure initiatives to ensure the achievement of sustainable development objectives, even in time of recession.

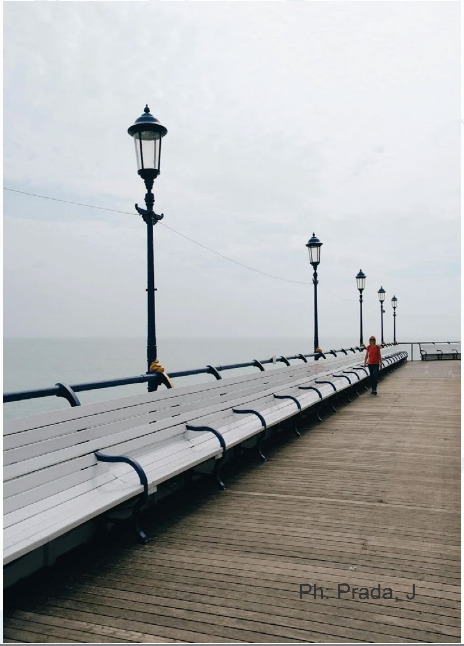
In order to promote the reduction of environmental impact and energy consumption, as well as a greater resilience of buildings to natural disasters, the design of new buildings and the regeneration of existing building stock should consider the life cycle of each building and the infrastructure with a view to long-term performance.

A precondition for obtaining financial resources is the sustainability of the investment and its ability to create long-term sustainable value. In the absence of public grants, long-term sustainability implies the **simultaneous presence of conditions of economic convenience and financial sustainability**.

7 | Sustainable Ecosystem Approach

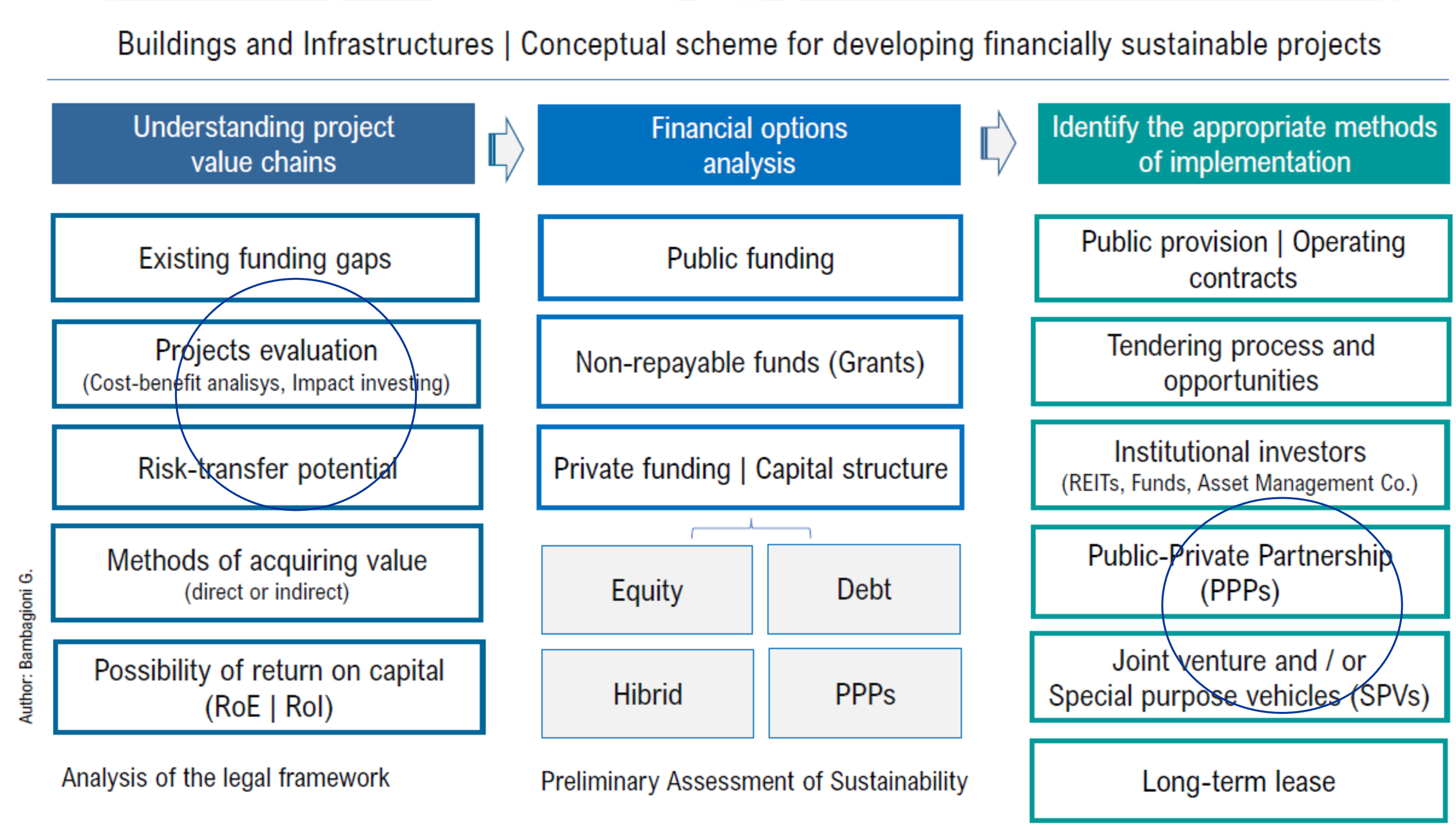
To provide long-term support to urban transformation projects, support shall be provided to the establishment of an **inclusive and integrated market ecosystem of actors**; such ecosystem will foster multi- and cross-sectoral synergies and activate the market.





How to turn projects into implementation | 10

Planning sustainable initiatives with a **holistic approach**: including the financial one, in compliance with the **Principles for Green Financing**, and with the evaluation of risks associated with **ESG** (Environmental Social and Governance) factors.

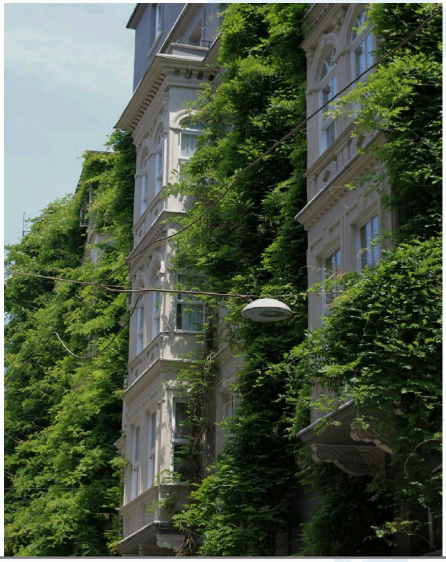


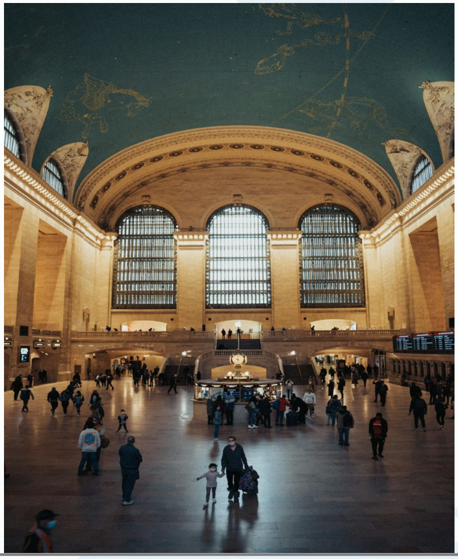
Source: Sostenibilità del valore nel finanziamento immobiliare. (i.e. Value sustainability in real estate financing. Bambagioni G. (2021), Maggioli Politecnica.

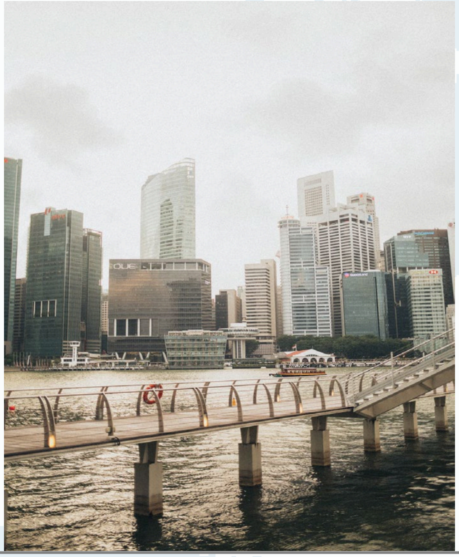
General framework

Implementation of these principles can be done at national, regional and local levels through harmonization of national regulatory frameworks and of public financial incentives.

These measures will promote investments in clean and green technologies, financing for sustainable natural resource based **green economies** and **climate-smart blue economies** and **increased use of green bonds. The principles can be also incorporated in individual urban infrastructure projects and programmes.**







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Full version of the Principles (English / French / Russian)

https://unece.org/isu/documents/2023/08/session-documents/principles-green-financing-sustainable-real-estate

Thank you!

[e] giampiero.bambagioni@erei.org | giampiero.bambagioni@unipg.it