Green Tagging: Mobilising Bank Finance for Energy Efficiency in Real Estate

REPORT FROM THE BANK WORKING GROUP 2017

Co-authored by Peter Sweatman and Nick Robins
Climate Strategy & UN Environment Inquiry

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Inquiry: Design of a Sustainable Financial System

The Financial Case for Green Tagging

Green Tagging refers to a systematic process whereby banks identify the environmental attributes of their loans and underlying asset collateral as a tool for scaling up sustainable finance. The green tagging of bank assets allows for easier access to green bond markets, better tracking of green loan performance and provides greater transparency of climate risks and portfolio resilience.

The Evolution of Green Tagging for Energy Efficiency The momentum behind green finance is growing both in Europe and across the world. The concept of green tagging emerged as a response to the increased policy and market momentum - and the need for market clarity around capital allocations. Real estate energy efficiency in the loan books of banks is a core place to start given its importance as a proportion of bank balance sheets, its importance in climate change terms and the existence of established systems for energy labelling as a basis for tagging.

If banks tagged their loans to existing energy and environmental standards, aggregated these and then published the results, we could take three steps forward in catalyzing the finance market for energy efficiency:

- There would be a leap in market transparency on the flows of finance to energy efficient assets and products;
- This data could provide valuable information on the portfolios of energy efficient loans that could be packaged as asset backed securities into green bonds; and
- It would provide the basis for evaluating the financial performance of energy efficient loans relative to their inefficient alternatives[1].

Scaling up energy efficiency finance faces a range of barriers and two stand out: the first is the lack of basic data on the energy performance of asset investments; and the second is the challenge of aggregating many small investments into a size that the capital markets or large banks will accept. At the system level, there could be a relatively simple way of removing these barriers that would improve market transparency, enable market creation in green bonds for energy efficiency and form the basis for valuable insights into the relative financial performance of energy efficient assets: "Green Tagging".

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[1] ABN Amro, BBVA, Berlin Hyp, HSBC, ING, Lloyds, SEB, Suedtiroler Volksbank, Triodos and UniCredit

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Energy performance labelling programmes exist for multiple products, most notably in white goods, and for buildings: They simplify communication to customers and "make the invisible visible". These energy performance labels have revolutionised consumer behaviour in the purchase of white goods and has impacted their manufacturers and respective supply-chains' approach to energy efficiency. Globally, 62 countries have energy performance standards for buildings[2]. In the EU, all properties when sold have to obtain an energy performance certificate that places the property on an A-G scale[3]. The 10 countries and markets, accounting for three-quarters of global vehicle sales, have fuel economy and/or greenhouse gas automobile labelling[4]. Green tagging can make the invisible sustainable attributes of banks' loans visible and thereby jumpstart the investment market for energy efficiency and green finance.

The green finance and energy efficiency investment momentum exists at three levels: the global dimension (G20 and TCFD), the European level (EEFIG, EeMAP and HLEG) and in EU Member States.

[2] GABC. (2016). Towards zero-emission efficient and resilient buildings: Global Status Report 2016. Retrieved from https://wedocs.unep.org/rest/bitstreams/45611/retrieve

[3] EPBD. (2016). Implementing the Energy Performance of Buildings Directive (EPBD). Retrieved from https://www.epbd-ca.eu/ outcomes/2011-2015/CA3-BOOK-2016-A-web.pdf

[4] GFEI. (2016). Fuel Economy State of the World 2016: Time for global action. Retrieved from https://www.globalfueleconomy.org/media/203446/gfei-state-of-the-world-report-2016.pdf

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