

Green finance



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Impact investment

Impact investment, which is socially committed investment, is a form of investment which, in addition to generating a financial return, aims to influence social and environmental change.





- it is a typical form of investment aimed at generating a financial return,
- it is, to some extent, a substitute for philanthropic activity.

The combination of these two modes of funding in the form of impact investment increases the chances of raising new funds precisely by those tasked with creating social and environmental change.

Four fundamental ethical principles for socially engaged investment can be distinguished:

- Decision-making should be preceded by the collection and analysis of a wide range of available information, from reliable sources, and the information itself must not be misused or distorted.
- Investment is a multi-stage and complex activity and an investor should not engage in activities that he or she simply does not understand, both in terms of the origin of potential income and the risks or threats involved.
- Investments are a source of financial resources for others, and the investor should be assured that it will not participate in the financing of activities that may cause it harm or infringe on the rights of others.
- The entities through which one invests should act with integrity, be trustworthy and, in particular, this applies to the activities of institutional investors.

Ethical investment will therefore translate into an investor choosing for his portfolio companies that do not harm others and at the same time act in a pro-social or pro-environmental manner.



From the impact investing portfolio, when guided by sustainability, there is the need to reject all investments in industries which:

- harm the interests of society,
- are unethical, e.g. the arms, tobacco or gambling industries,
- are related to nuclear energy,
- produce genetically modified products,
- use animal testing in the production and design of products,
- are associated with abortion services.



The idea behind impact investing is to invest in companies whose activities advance social and environmental interests. Such companies can be:

- These researching innovative solutions to reduce air pollution, save energy from conventional sources or consume natural resources.
- These operating in accordance with the principles of Corporate Social Responsibility (CSR), respecting the rights of employees and the rights of business partners or customers.
- These engaging in environmentally friendly activities, using recycled raw materials or renewable energy.
- These carrying out activities for the benefit of the local community.
- These applying the principles of corporate governance, transparent management in accordance with a widely accepted code of ethics.

Global trends in impact investing :

- green investments - investing in companies that recycle or produce green energy;
- investment through funds in companies related to the social economy - in other words the Stanford Social Innovation Review market;
- investing in the buildings of tomorrow - sustainable buildings that meet people's housing needs while being energy efficient and even passive.
- Financial instruments that support impact investing



How to invest according to the idea of **impact investing**?

- invest in shares of selected companies
- invest in funds that invest in impact investment.

Challenges and prospects for the development of ethical and sustainable investment:

- Impact investing will continue to grow with the trend of seeking income opportunities while increasing the quality of life for society.
 - The impact investing market is developing and growing at a faster rate than global GDP - 9 percent annually, and particularly in Europe.
- Consumers willingly buy products and use services from companies that operate ethically and sustainably.
- Investors do the same, and their actions translate into our quality of life and the health of the environment.

Impact investment market environment

Demand			Supply	
Stakeholders who are interested in impact investment tasks	Entities that carry out tasks financed under impact investment	Methods of financing (asset classes)	Channels of capital distribution	Sources of capital (investors)
Governance	Foundations/charitable organisations	Cash, certificates of deposit, deposit accounts, money market funds	Social banks	European Union governments/investments
		Secured loans/ unsecured loans/ providing guarantees	Community development finance institution	Institutional investors, including banks
Consumers (social groups)	Social enterprises/non-profit enterprises	Fixed income instruments, including social impact bonds, charity bonds, green bonds	Impact investment funds, including social venture fund	Wealthy individual customers/mass customers/family office
Corporations	Commercial enterprises focused on a specific social or environmental objective	Shares/stock/units in investment funds	Other impact investment intermediaries, including stock exchanges for socially responsible investing	Foundations/charitable organisations
		Private equity/venture/capital/mezzanine	Crowd-funding platforms	Social investment distributors
Foundations/NGOs		Real estate and other assets		
		Grants	Direct funding	Local funds

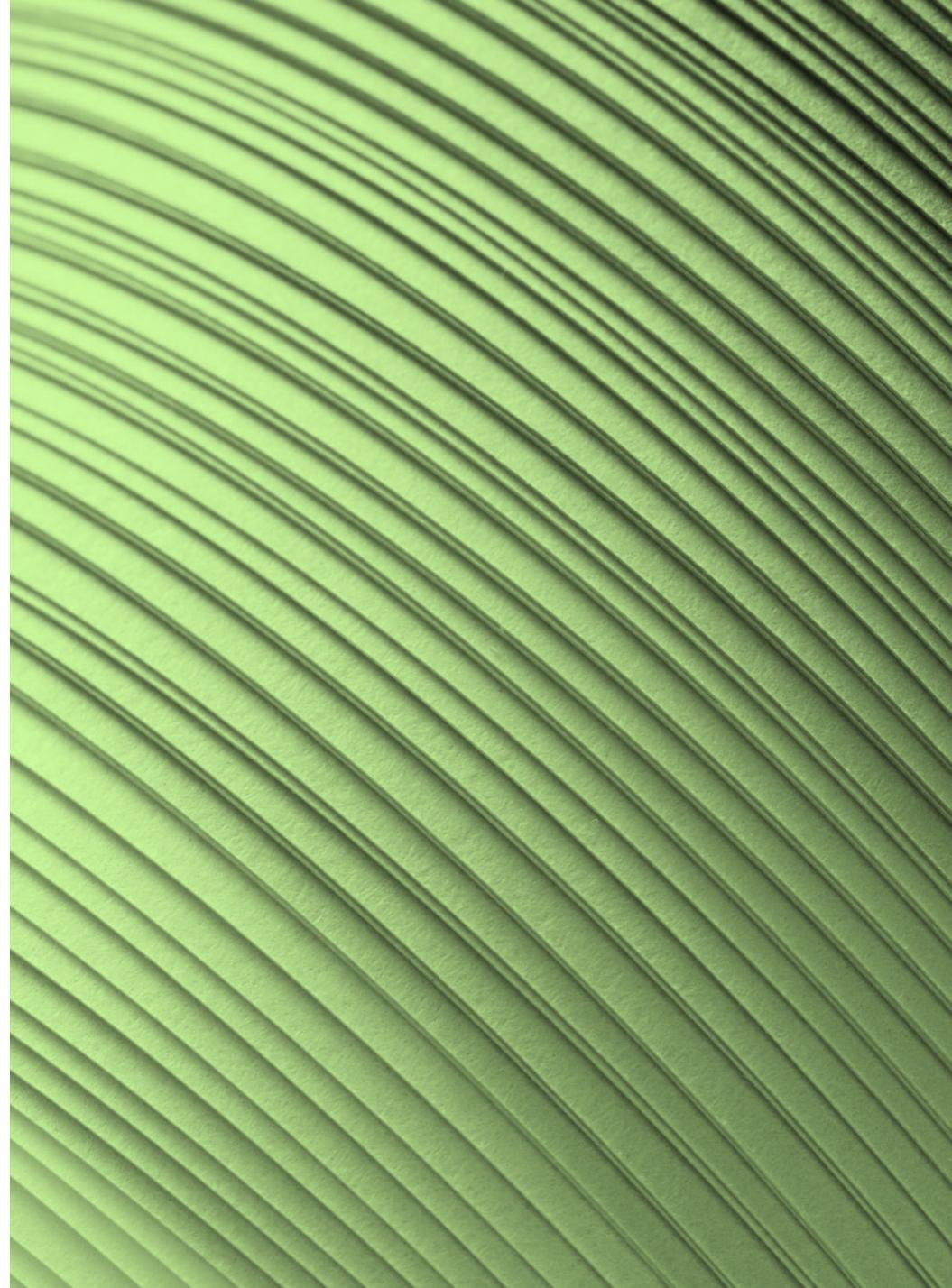
- The demand side of the impact investment market environment includes, among others, entities interested in the tasks carried out as part of this type of investment. They are the beneficiaries of specific social or environmental changes. The best examples of this are, among others, governments, which often benefit from the help of entities implementing social tasks in exchange for funding from their budgets.
- Another group of entities included in the demand side of the impact investment environment are those that perform tasks. These include, in addition to non-governmental organisations or social enterprises, commercial enterprises whose core activity is a specific social or environmental objective, e.g. the provision of specific (often innovative) services or products to particular, e.g. excluded, social groups.
- The tasks expected by the beneficiaries of impact investment can be realised by injecting capital from the supply side of the impact investment environment, in other words, from investors.
- This group is the most numerous and includes governments, financial institutions, NGOs and individual customers alike.
- The common feature of these entities is that they have the capital required to carry out specific tasks in social and environmental areas.



Green finance

The G20 Green Finance Study Group in 2016 described green finance as 'financing investments that provide environmental benefits in the broader - environmental context of sustainable development'.

- Green finance is a concept that combines the power of finance and operations with the power of eco-friendly behaviour. It is a large area encompassing individual and business consumers, manufacturers, investors and financial lenders.
- Unlike traditional financing activities, green financing places greater emphasis on the environmental and industrial benefits, paying more attention to environmental protection.
- Green finance is often used interchangeably with green investments. However, in practice, green finance is a broader view, encompassing more than investments. It includes, for example, the operating costs of green investments that are not included in the definition of green investments.



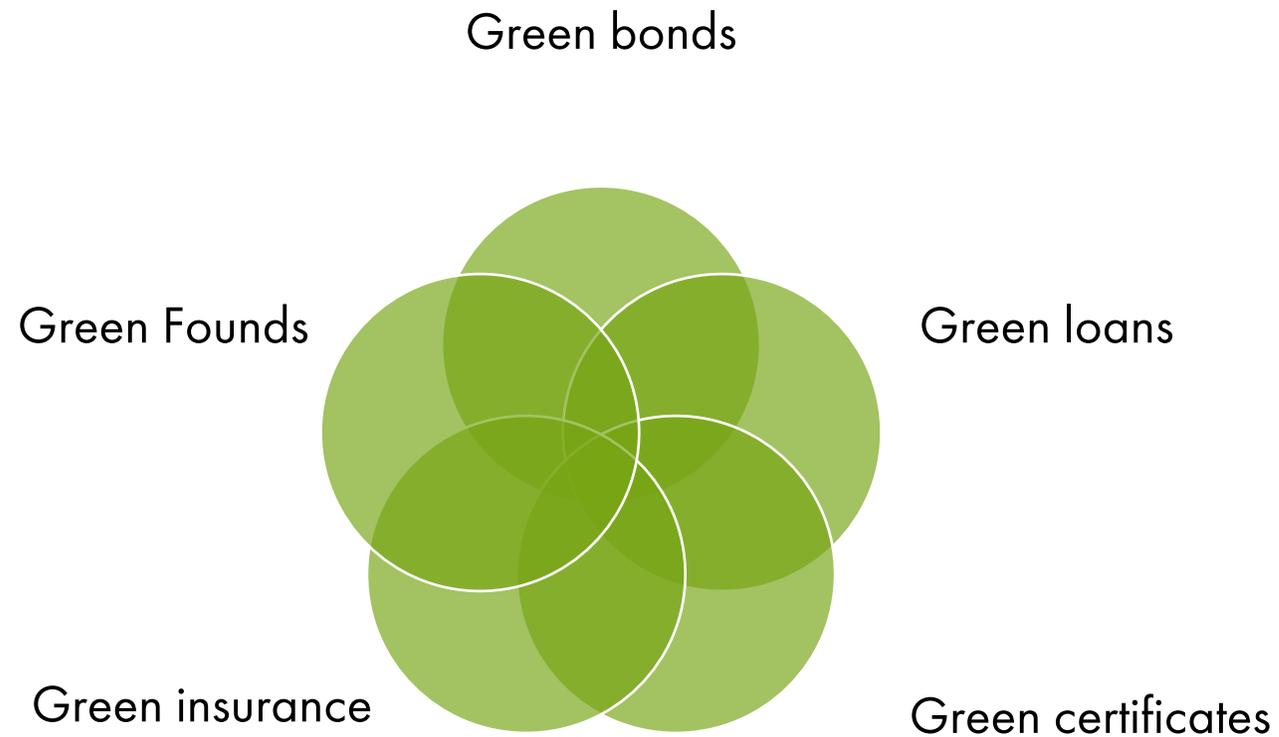
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- Green finance is a positive step in the transition of the global economy towards sustainable development.
 - In order to encourage investments that provide environmental benefits, the primary tasks of green financing are to internalise environmental externalities and reduce the perception of risk.
 - The main factors influencing the development of green finance are banks, institutional investors and international financial institutions, as well as central banks and financial regulation.

Green finance is implemented through:

- financing public and private green investments
- financing public policies that encourage the implementation of environmental protection and environmental damage mitigation or adaptation of projects and initiatives
- elements of the financial system including those dealing specifically with green investments, such as the Green Climate Fund or financial instruments for green investments (e.g. green bonds and green funds).



Green financial instruments



Green bonds

- A green bond is a type of loan whereby the issuer borrows money from the bondholder or bond buyer. The issuer repays the amount of the loan plus interest according to an agreed schedule.
- Green bonds are the most popular form of debt financing for sustainable development projects. They are debt instruments characterised by the need to specify the purpose for which the proceeds of the issue are to be used.
- Issue proceeds must be used for 'green' projects, as described in the Green Bond Framework (GPB).
- A key element of green bonds is the use of the proceeds for projects with clear environmental benefits, which the borrower/bond issuer must assess and, if possible, quantify.
- Borrowers issue these securities to secure financing for projects that will have a positive impact on the environment, such as ecosystem restoration or pollution reduction. Investors who buy these bonds can expect a return as the bonds mature.

benefits to the issuer of green bonds :

- raising debt capital to finance sustainable projects,
- issuing green bonds sends a signal to the market about an entity's commitment to sustainable development,
- as balanced bond issues are still less common than traditional issues, they receive more media coverage, which contributes to a positive perception of the issuer not only by investors but also by clients,
- potentially lower cost of emissions,
- increased demand for green bonds among investment funds due to the Sustainable Finance Disclosure Regulation (SFDR) - the SFDR aims, among other things, to motivate investment fund asset managers to disclose the level of integration of sustainability factors in investment products,
- involve tax incentives such as tax exemptions and tax credits.

Depending on the purpose for which the funds from their issue are used, a distinction is also made between :

- Social Bonds,
- Sustainability Bonds,
- Sustainability-Linked Bonds





Green loans

A green loan is a form of financing that is designed to enable and empower companies to finance projects that have a clear environmental impact, or rather are geared towards financing "green projects".

what makes a loan a green loan :

- Use of proceeds.
- Evaluation and selection of green projects.
- Managing and monitoring the use of proceeds.
- Reporting.

Benefits of a green loan :

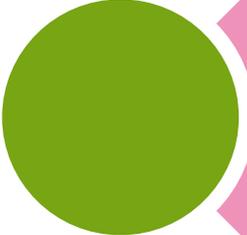
- increased reputation by enabling borrowers and lenders to tangibly demonstrate their commitment to developing a sustainable economy.
- lenders charge lower interest rates to finance green projects or relax financial or other restrictive covenants, encouraging borrowers to use such instruments.
- sustainable borrowers are likely to implement better risk management and good governance procedures, resulting in a better individual overall credit risk profile for the borrower.

Green certificates are property rights resulting from the conversion of certificates of origin for energy from renewable sources, issued by the President of the Energy Regulatory Authority, i.e. sources using in the process of conversion energy from:

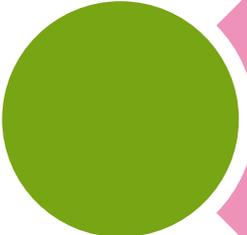
- wind,
- solar radiation,
- geothermal,
- waves, currents, tides and the gradient of rivers,
- obtained from biomass.

The conversion takes place when certificates of origin are issued to an entity producing electricity at a renewable energy source, each time after they are registered in the registration system of the Certificate of Origin Register. The number of green certificates generated corresponds to the amount of energy shown on the certificate, with one property right corresponding to 1 kWh of electricity (this is the nominal value of the green certificate). They are perpetual instruments and are redeemable by the President of the ERO at the holder's request.

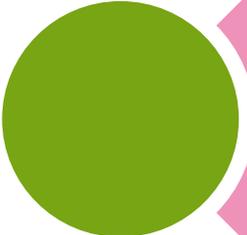
Examples of green insurance:



Green motor vehicle insurance.



Green insurance for homes.



Green insurance for companies.

Green fund

A green fund is a mutual fund or other investment vehicle that invests only in companies that are considered socially conscious or that directly promote environmental responsibility.

The investment strategy of a green fund may be based on some of the following characteristics :

- Selecting companies that look for ways to reduce energy consumption and support environmental issues
- Selecting companies that value building relationships with employees, customers and the community (concerns include gender inclusion, fair labour practices and human rights)
- Paying attention to how the company is managed, the level of transparency and whether it has a diverse board of directors



EU support for green investments - FENG

- One of the key programmes that will fund Green Deal development is the European Funds for the Modern Economy (FENG).
- The FENG is the successor to the Intelligent Development Programme, which is intended to continue pro-innovation activity on many levels. One of these is precisely innovation in the field of green transformation. One of the seven modules a project can consist of is the 'greening of enterprises'.
- For business owners thinking about funding, this means that there is an opportunity to incorporate elements related to business transformation towards sustainability and a circular economy (GOZ) into the project.
- In Poland, the Polish Agency for Enterprise Development is responsible for the implementation of the FENG Programme.

Two additional support instruments are also available under the FENG Programme :

- technology credit,
- green guarantee fund.

Both instruments can be used as part of the Bank Gospodarstwa Krajowego's offer.

- One important component of the European Green Deal initiatives is the European Funds for Infrastructure, Climate and Environment (FEIKS) programme. The programme is designed according to the Do No Significant Harm principle. In practice, projects implemented with funding from this programme must not adversely affect the environment.
- Resources from this fund will support, among other things, increased energy efficiency, greenhouse gas reduction and climate change adaptation.
- Importantly, the programme's offer will be addressed not only to enterprises, but also, among others, to local government units, owners of residential buildings, state budgetary units and public administration, energy service providers, managers of national roads and railways, rescue services (technical rescue) and those responsible for traffic safety, entities managing airports and seaports, non-governmental organisations, health care institutions, cultural institutions, churches and religious associations.
- Funds from this programme can be applied for through the National Fund for Environmental Protection and Water Management

- The LIFE programme is the only European Union financial instrument dedicated exclusively to the co-financing of projects in the field of environmental protection, including nature, and human impact and adaptation to climate change. Its main objective is to support the implementation of Community environmental law, to implement EU environmental policy and to identify and promote new solutions to environmental and climate problems.
- The National Fund for Environmental Protection and Water Management is responsible for the implementation of the programme.



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- Any entity (public or private bodies, actors and institutions) registered in an EU country may be a beneficiary of the LIFE Programme..
 - Standard LIFE project funding from the European Commission is up to 60% of the value of the eligible costs and up to 75% for nature projects (for projects serving priority/endangered species and habitats).
 - Polish applicants may additionally apply for project co-financing from national funds of the National Fund for Environmental Protection and Water Management supplementing the financial assembly of the project up to 95% of eligible costs.

The National Fund for Environmental Protection and Water Management offers two instruments for additional financing of LIFE projects:

- As part of the 'LIFE Applications Incubator' - a non-refundable grant can be obtained to co-finance the preparation of a LIFE application up to the amount of PLN 80,000.
- Loan for project implementation under the LIFE Programme



Loan under the LIFE Programme

- The loan may be granted for a maximum period of 15 years, calculated from the date of the first scheduled loan tranche disbursement to the date of repayment of the last instalment,
- In duly justified cases arising from the characteristics of the project or of the beneficiary, the period of financing of the project in the form of a loan may be different, but not longer than 25 years.
- The interest rate on the loan may be fixed or variable. The interest rate may not be lower than 1%. The variable interest rate is based on WIBOR 3M.

Loan under the LIFE Programme

The loan may be partially forgiven provided that:

- the implementation of the project and the achievement of the environmental effect occurred at dates not later than and within scopes not smaller than those stipulated at the date of the grant agreement;
- the beneficiary has fulfilled, in accordance with separate regulations, the obligation to pay fees and penalties constituting the income of NFOŚiGW and other liabilities towards NFOŚiGW within 3 years preceding the application for a partial write-off of the loan;
- there is a confirmation of the sustainability of the project in accordance with the loan agreement concluded with the beneficiary, if a condition concerning sustainability is indicated in the agreement;
- there are no arrears, as at the date of redemption, to NFOŚiGW in respect of repayments of capital instalments, interest and other amounts due under the subsidy agreement.