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Building urban resilience through action plans,
nature-based solutions, innovative and green financing

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

Note by the Bureau of the Committee

Summary

This document contains the "Principles for Green Financing for Sustainable Real Estate, Infrastructure and Urban Transformation Projects" elaborated by the Committee Bureau in cooperation with international experts and the Real Estate Market Advisory Group for Sustainable, Climate-Neutral and Energy-Efficient Buildings and Cities. They are intended to provide guidance to national, regional and local governments; and to other relevant stakeholders on green financing of real estate and urban infrastructure projects.

The Committee is invited to endorse the principles.

I. Introduction

1. 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.[1]

2. 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.

3. To promote environmental sustainability of real estate, infrastructure and urban transformation projects, ensuring the use of "green financing" instruments is crucial. There are multiple definitions of green financing. According to the World Economic Forum, green financing is "any structured financial activity that's been created to ensure a better environmental outcome".[2] According to the United Nations, 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.[3] For the United Nations, green financing plays an important role in achieving the Sustainable Development Goals (SDGs) as it is aimed "to increase [the] level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities".[4]

4. The use of "green financing" for real estate, infrastructure and urban transformation projects not only opens up possibilities for the infrastructure alignment with environmental standards, but also contributes to greening of the financial industry, i.e., strengthening those banks and other lenders which have proven sustainability credentials. This is especially important in the context of the increasing interest among international financial regulators and supervisors to promoting sustainable financing —which refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.[5] Steady progress is being made in the development of internationally shared frameworks, to identify and measure ESG risks and evaluate management of these risks.[6]

5. This document presents principles for green financing for real estate, infrastructure and urban transformation projects. The principles 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:

(a) General Assembly resolution of September 2015 on transforming our world: the 2030 Agenda for Sustainable Development.[7] It stresses the need for a comprehensive,

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[1] See: United Nations Principles for sustainable and inclusive urban design and architecture – i.e., "San Marino Declaration": https://unece.org/housing-and-land-management/san-marino-declaration; https://unece.org/sites/default/files/2022-12/UNECE_San%20Marino%20Declaration.pdf.

[2] https://www.weforum.org/agenda/2020/11/what-is-green-finance/.

[3] United Nations Environment Programme, Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication (Nairobi, 2011). Available from www.unep.org/greeneconomy/Portals/88/documents/ger/ger_final_dec_2011/Green%20EconomyReport_Final_Dec2011.pdf (accessed 26 January 2012).

[4] https://www.unep.org/regions/asia-and-pacific/regional-initiatives/supporting-resource-efficiency/green-financing .

[5] European Commission. Overview of Sustainable Finance. Available at https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en.

[6] See for example, a thematic review by the European Central Bank of good practices https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcercompendiumgoodpractices112022~b474fb8ed0.en.pdf.

[7] A/RES/70/1.

people-centred approach so as to leave no one behind and ensure policy coherence across all the integrated and indivisible SDGs, containing:

(i) Goal 17 - aimed at strengthening the means of implementation and revitalizing the Global Partnership for Sustainable Development through the role of finance, and

(ii) Means of implementation (para 41), noting: "We recognize that each country has primary responsibility for its own economic and social development. The new Agenda deals with the means required for implementation of the Goals and targets. We recognize that these will include the mobilization of financial resources as well as capacity-building and the transfer of environmentally sound technologies to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed. Public finance, both domestic and international, will play a vital role in providing essential services and public goods and in catalysing other sources of finance. We acknowledge the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals, and that of civil society organizations and philanthropic organizations in the implementation of the new Agenda."

(b) The *Geneva United Nations Charter on Sustainable Housing*, endorsed by the Economic Commission for Europe (ECE) on 16 April 2015, to support governments in their efforts to ensure access to decent, adequate, affordable and healthy housing for all through effective policies and actions at the national, regional and international levels, supported by international cooperation.

(c) *The United Nations Policy Framework for Real Estate Markets,*[8] in Principle 8 (Ensuring access to sustainable financing for lending and investment rules) highlights how: "An appropriate international regulatory framework for banks strengthens the regulatory, supervisory and risk management of the banking sector and creates the preconditions for long-term real estate development," and Criteria 8.9. (Green Financing), which underlines that: "Banks and local government agencies should be encouraged to explore 'green financing' and to offer reduced rates in exchange for environmental sustainability in new developments and retrofits."

(d) "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, neighbourhood and homes,"[9] and the "San Marino Declaration on principles for sustainable and inclusive urban design and architecture in support of sustainable, safe, healthy, socially inclusive, climate-neutral and circular homes, urban infrastructure and cities".[10] The ECE Committee on Urban Development, Housing and Land Management regional action plan and the San Marino Declaration provide clear principles for a more integrated approach to urban planning, design, and architecture; as well as for planning and managing housing. They also emphasize the importance of the engagement of vulnerable groups who do not always have capacity and resources to engage.

(e) The European Green Deal[11] and the European Union (EU) taxonomy for sustainable activities[12]. The European Green Deal is a package of policy initiatives that aim to set the EU on the path to a green transition, with the ultimate goal of achieving climate neutrality by 2050.[13] The taxonomy is an EU-wide classification system for sustainable activities; it is a cornerstone of the EU's sustainable finance framework and a market

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8 https://unece.org/DAM/hlm/documents/Publications/2019_Policy_Framework_for_Sustainable_Real_Estate_Markets.pdf .

9 https://unece.org/housing/regional-action-plan-2030.

10 https://unece.org/housing-and-land-management/san-marino-declaration.

11 https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en.

12 https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en.

13 https://www.consilium.europa.eu/en/policies/green-deal/#:~:text=The%20European%20Green%20Deal%20is%20a%20package%20of%20policy%20initiatives,a%20modern%20and%20competitive%20economy.

transparency tool that supports direct investments in the economic activities most needed for the transition, in line with the European Green Deal objectives.

(f) The new Bank of International Settlement (BIS) Basel III Agreement[14], which forms the basis for the future evolution of banking regulations. For example, the European Central Bank (ECB) states: "Climate change poses risks to our economy and the financial sector. We need to assess how climate change and the transition to a carbon-neutral society affect our economy, so that we can account for their influence on our work as a central bank and banking supervisor. This will help us to keep prices stable and banks safe".[15] This implies promoting the development of sustainable finance as well as establishing incentives for a greener financial system in the real estate industry.

II. Principles

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

(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,[16] 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).

(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)[17] and social taxonomies[18] 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

[14] https://www.bis.org/bcbs/basel3.htm.

[15] https://www.ecb.europa.eu/ecb/climate/html/index.en.html.

[16] Equity and Efficiency Effects of Land Value Taxation (2022), IMF, Volume 2022, Issue 263. ISBN: 9798400227943.

[17] See examples at https://www.esma.europa.eu/sites/default/files/library/jc_2022_23_-_clarifications_on_the_esas_draft_rts_under_sfdr.pdf

[18] See explanation, for instance, at https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf

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[19] 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.

7. 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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[19] Economic convenience means the ability of the project to create value over the duration of the contract and to generate an adequate level of profitability for the invested capital; financial sustainability means the project's ability to generate sufficient cash flows to guarantee repayment of the loan.