

# DELIVERING GREEN FINANCE

WHAT WE DO

HOW WE GENERATE CHANGE

# WHO WE ARE

Finance in Motion manages EUR 2 billion of assets delivering impact. We structure scalable and commercially sustainable investment funds with the primary goal of achieving significant economic, social and environmental outcomes in lower income countries. We combine financing with high-impact tailored technical assistance and capacity building to maximize the outreach and sustainability of our operations.

As critical thresholds in relation to the overexploitation of natural capital are being crossed, our attention is directed to develop and implement green growth strategies with the help of innovative and sustainable investments that preserve natural resources and contribute to climate change adaptation and mitigation.

With this briefing we want to share our experience in delivering green finance and describe the approaches and invest-

ment strategies that we use to achieve a positive impact and contribute to transforming our target markets. We define green finance as investments that recognize the importance and value of the environment and its natural capital, reduce environmental risks, and boost ecological integrity. Our green finance operations target the implementation and expansion of resource efficient sustainable business practices across all sectors with a special emphasis on improving energy, water and waste management; facilitating growth of and access to clean energy; as well as promoting biodiversity conservation, sustainable agriculture and forestry. In addition, we also drive innovation in these fields through our own investments in cutting edge solutions.

				
<b>Focus</b>	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Water &amp; waste management</li> <li>• Resource efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable agriculture &amp; agri-processing</li> <li>• Sustainable fishery &amp; aquaculture</li> <li>• Sustainable forestry</li> <li>• Eco-tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable forestry plantations</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable aquaculture (Aqua-Spark)</li> <li>• Sustainable food production (Protix)</li> <li>• Sustainable energy, water and agricultural startups (GreenTec Capital Partners)</li> </ul>
<b>Regions</b>	<ul style="list-style-type: none"> <li>• Southeast Europe</li> <li>• European Eastern Neighborhood region</li> <li>• Middle East &amp; North Africa</li> </ul>	<ul style="list-style-type: none"> <li>• Latin America &amp; Caribbean</li> </ul>	<ul style="list-style-type: none"> <li>• Latin America</li> <li>• Sub-Saharan Africa</li> </ul>	<ul style="list-style-type: none"> <li>• Global</li> </ul>

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Finance in Motion is helping to achieve the transition to a green economy in three key ways:

1. attracting large-scale private capital;
2. generating high-impact investable assets; and
3. shaping a conducive investment ecosystem, by engaging with local financial sectors and key stakeholders to mainstream green finance.

We firmly believe that lasting impact at scale is achievable only through market-oriented approaches. Subsidies can be important tools in catalyzing new sectors and client segments to make green investments, but this is ultimately a short-term solution to a long-term problem. Our approach ensures that we are aligned with the markets in which we operate, and therefore contribute to the creation of robust green finance systems.

## ATTRACTING PRIVATE CAPITAL TO THE GREEN SPACE

Private capital must be part of the solution if we are to address the challenge of transitioning to a green economy at a meaningful scale. Attracting large volumes of private capital, however, requires that assets be accessible to mainstream investors and designed to meet their requirements, whether these are impact investors such as family offices and foundations, or institutional investors like insurance companies and pension funds.

Finance in Motion has developed expertise in designing financial products that attract private capital by ensuring market-appropriate risk/return profiles. We use the approach of blended funding models – which layer private investments alongside public investors and

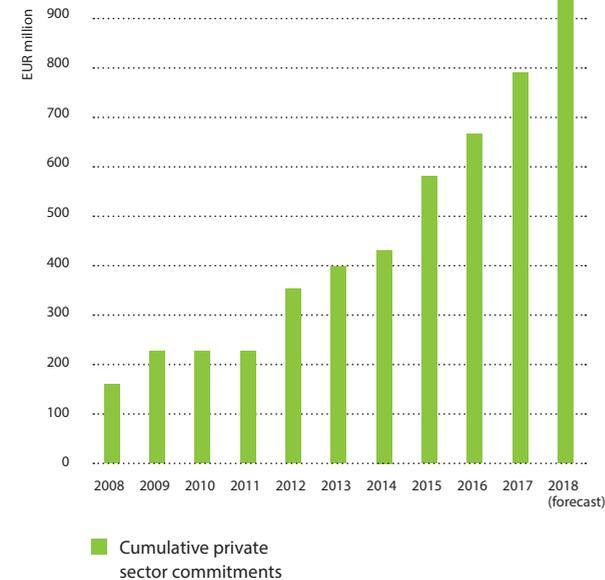


donors – to deliver both equity and debt. These structures both acknowledge and deliver on the distinct investment characteristics and goals of each investor class: public investors and donors are willing to take risk to achieve higher development impact and are interested in seeing their funding mobilize additional private sector funding, whereas private investors are interested in entering new sectors and markets while often preferring a lower risk profile. As such, public investors and donors can play a catalytic role by investing early on in equity or junior/mezzanine shares of our funds.

Our experience shows that such a blended finance model can be scaled up and used to mobilize greater amounts of private capital as each fund progresses. This is because the track record, granularity of the invested portfolio and economies of scale, reduce the overall risk of the portfolio and enhance the financial return. In the case of our debt fund structures, private investors benefit further from the fact that the public and donor investments into the junior and mezzanine shares of the fund create a risk cushion for private investors, since these share classes absorb any first losses resulting from the fund's underlying investments. To date, Finance in Motion-managed funds have mobilized more than EUR 850 million in private capital (Figure 1).

Along with the structural risk enhancements, the use of donors and public investors allows Finance in Motion to be an early mover into critical asset classes and help prepare them to become investable for private capital at scale. The participation of donors and public investors creates a quality seal and stamp of approval that demonstrates the bankability of the asset class.

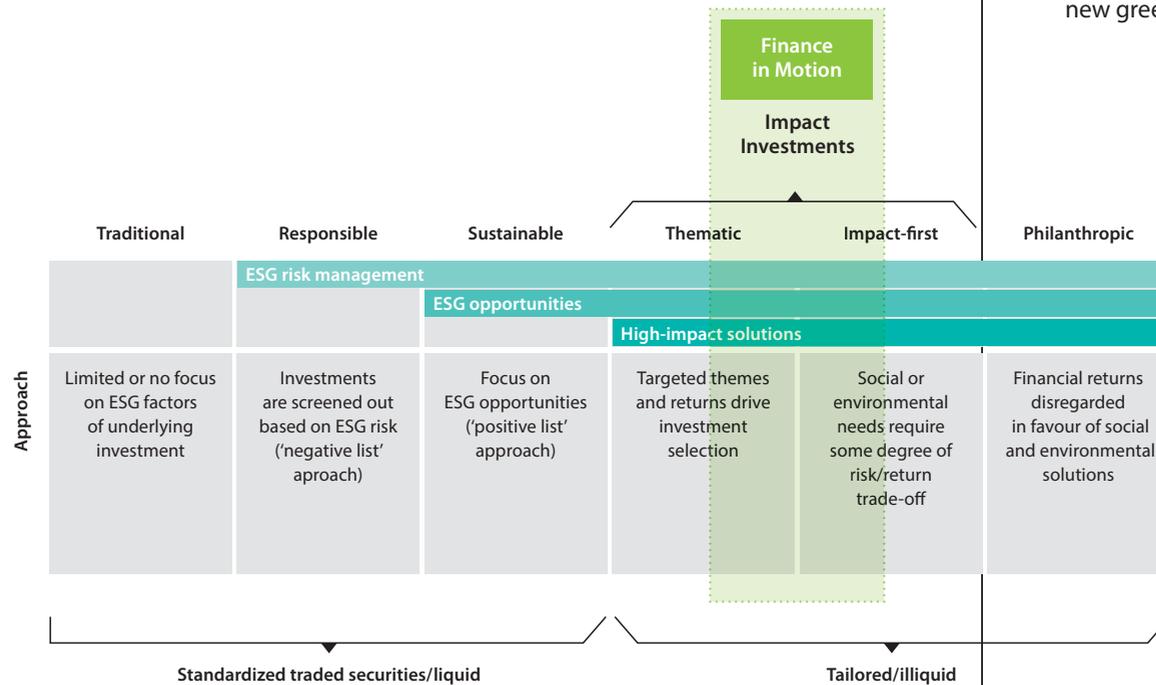
Figure 1 – Private commitments to funds advised by Finance in Motion



### GENERATING HIGH-IMPACT ASSETS

What sets Finance in Motion apart from the majority of green finance investors is our focus on asset generation to deliver high impact. Most thematic, responsible or sustainable investments involve publicly traded securities, i.e. bonds or shares, based on a screening of environmental, social and governance (ESG) metrics (Figure 2). This is useful in the ‘green-

Figure 2 – Spectrum of impact investing



ing’ of portfolios, but as the investor is typically a secondary buyer of existing securities, the environmental added value of the investment is lower than if the investor were to ‘create’ or enable new assets. Our fundamental approach as an asset manager is to generate investible green assets in lower income countries so that our funds can inject targeted finance into markets and ensure a continuous pipeline of new green projects.



The funds we manage provide highly targeted financing for end-recipients investing in projects that meet strict eligibility criteria, both in terms of scope and minimum levels of impact (see box below).

#### **The eco.business Fund – Smartly partnering finance with sustainability standards and certification**

How does the eco.business Fund, which promotes biodiversity conservation, achieve impact? It connects sustainability standards with finance in order to leverage the respective strengths of each side, i.e. a more sustainable approach to biodiversity-critical sectors such as agriculture, combined with tapping into the financial resources needed to scale up such solutions. Financial institutions are motivated to take a proactive inclusive approach to financing agriculture producers and businesses that meet robust and ambitious sustainability standards or certifications (e.g. as issued by Fairtrade International, Rainforest Alliance and others). By working with existing standards, the eco.business Fund is able to deliver deeper analysis of the benefits of its investments and leverage their work on impact measurement and baselines.



Raising the bar of ‘acceptable’ practices and setting higher benchmarks for environmental performance is what we achieve through well-defined and tailored eligibility criteria and measures. Often critical ingredients are missing in our markets, like a building code or other environmental standards or even the notion of the need for compliance. Working on the ground, setting baselines and targets, and demonstrating the positive correlation between commercial success and sustainable practices help to close these gaps. This is a key differentiator that allows us to push

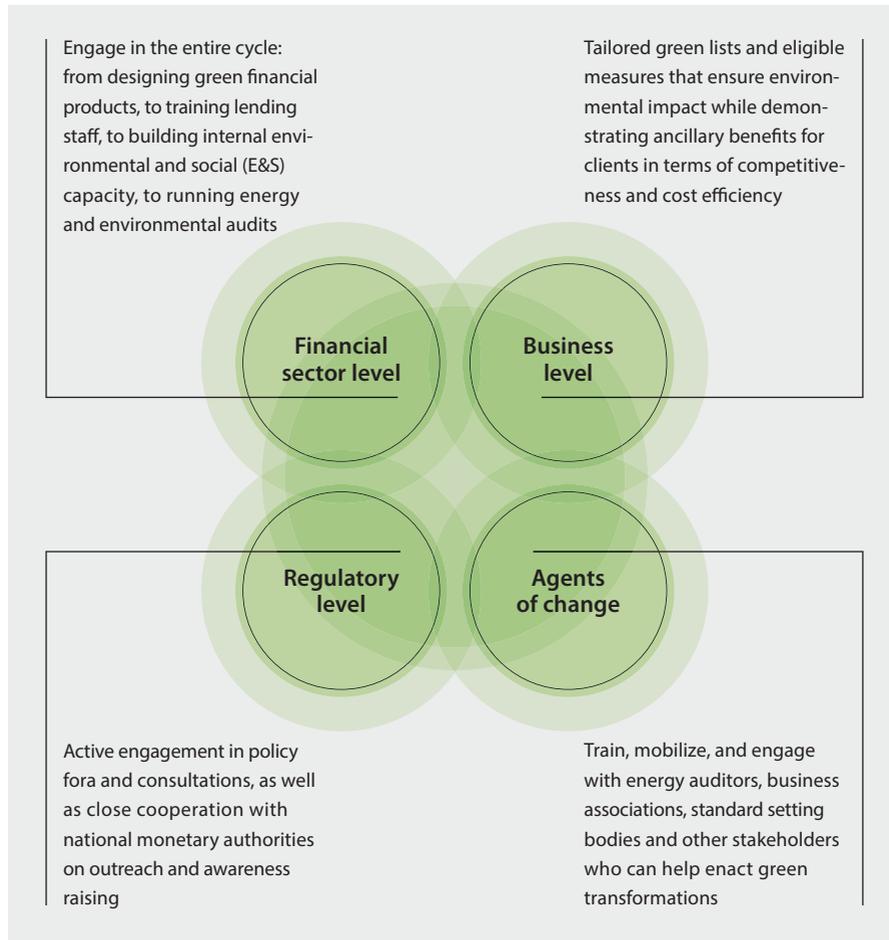
impact and to build green asset classes and portfolio segments. In addition, direct financing of innovative ‘lighthouse’ projects has a strong signalling effect for the growth of these sectors – for example, we provided financing for the first wind farm in Georgia and the wider Caucasus region through the Green for Growth Fund with an emphasis on best-practice environmental and social management. Likewise, we find it crucial to engage longterm in sustainable forest and plantation management, breaking new ground in a challenging sector, to sustainably source timber products.

#### **SHAPING A CONDUCTIVE ‘ECOSYSTEM’ FOR GREEN GROWTH**

Large shifts in investment patterns will be required to move towards greener economic paradigms. Building financial structures that can attract both public and private capital is part of the answer on the supply side, but this transition also requires significant changes on the demand side at the local level. Companies and consumers alike need to become more aware of the benefits of green products and services and the externalities of non-sustainably sourced goods and services. Governments and agencies have to establish the regulatory frameworks, incentives and standards that enable green projects and operations. Service providers, such as environmental auditors, need to be empowered and trained to act as agents of



change. Financial institutions must develop the capacities to deliver green finance and understand the portfolio risks, as well as market share implications of failing to do so. At Finance in Motion we take an integrated approach to this challenge: we combine long-term financing with tailored technical assistance to make green finance a true business line within financial institutions and build capacity in key parts of the respective investment ecosystem. We concentrate on those areas where we can make a difference and achieve change.



### The Green for Growth Fund (GGF) and measuring impact

The GGF has provided finance for more than 27,500 energy efficiency and renewable energy projects since the Fund was created in 2009, totalling over EUR 710 million. The recipients of finance include households, corporates, small and medium enterprises (SMEs), agricultural producers and project developers. The GGF collects detailed impact data on individual sub-loans across the entire portfolio, even when reaching such a large number and diversity of end-clients across numerous partner financial institutions and markets. This is made possible by a dedicated online reporting tool for energy savings, eSave, which is provided to partner institutions to collect information on every project. The annual energy saved by the GGF's investment portfolio is equivalent to more than 1.4 million barrels of oil, or in terms of greenhouse gas emissions, more than 2.9 million trees planted per year.

# HOW WE GENERATE CHANGE

## Change with local roots

We firmly believe that operating in physical proximity to our investees is key to success. With offices across our markets, Finance in Motion's decentralised operations ensure that we maintain a strong market presence, as well as collect first-hand information and build deep local networks.

## A collaborative approach to change

We understand that we cannot always do it alone. In fields requiring specialized technical knowledge we use complementary skills from partners during the design, launch and/or operation of our funds. Collaboration allows us to ensure that we leverage industry-leading knowledge, tools and networks in our efforts to deliver meaningful and long-lasting change.

## An inclusive approach to change

We know that delivering green finance requires new sectors and skills to be built up. Finance in Motion's technical assistance activities are part of an integrated approach in which investments and assistance support one another to strengthen the capabilities of our partners.

## A holistic approach to change

We observe that green challenges are often cross-cutting, in terms of sectors and regions. We look for these interlinkages, or nexus areas, and integrate them into the eligibility of our funds, both to expand our focus and in recognition that holistic approaches are most effective in such instances.

## A rigorous approach to change

We go beyond 'do no harm'. Finance in Motion undertakes a solid E&S screening of all of its investments, tailored to the specifics of the Fund and the respective E&S policies. When gaps are identified, we work through technical assistance projects to address shortcomings and build these local capacities. Through in-house E&S, energy, agriculture and forestry specialists, we promote investments with positive environmental and social benefits.

## Measuring change

We measure what we achieve. Finance in Motion delivers best-in-class reporting in established fields – such as energy efficiency and CO<sub>2</sub> savings relating to sustainable energy – and identifies novel yet meaningful approaches to tracking impact in topics such as biodiversity. Our custom-made impact platform, FiM<sup>2</sup>act, enables investment staff to integrate impact results into their work.

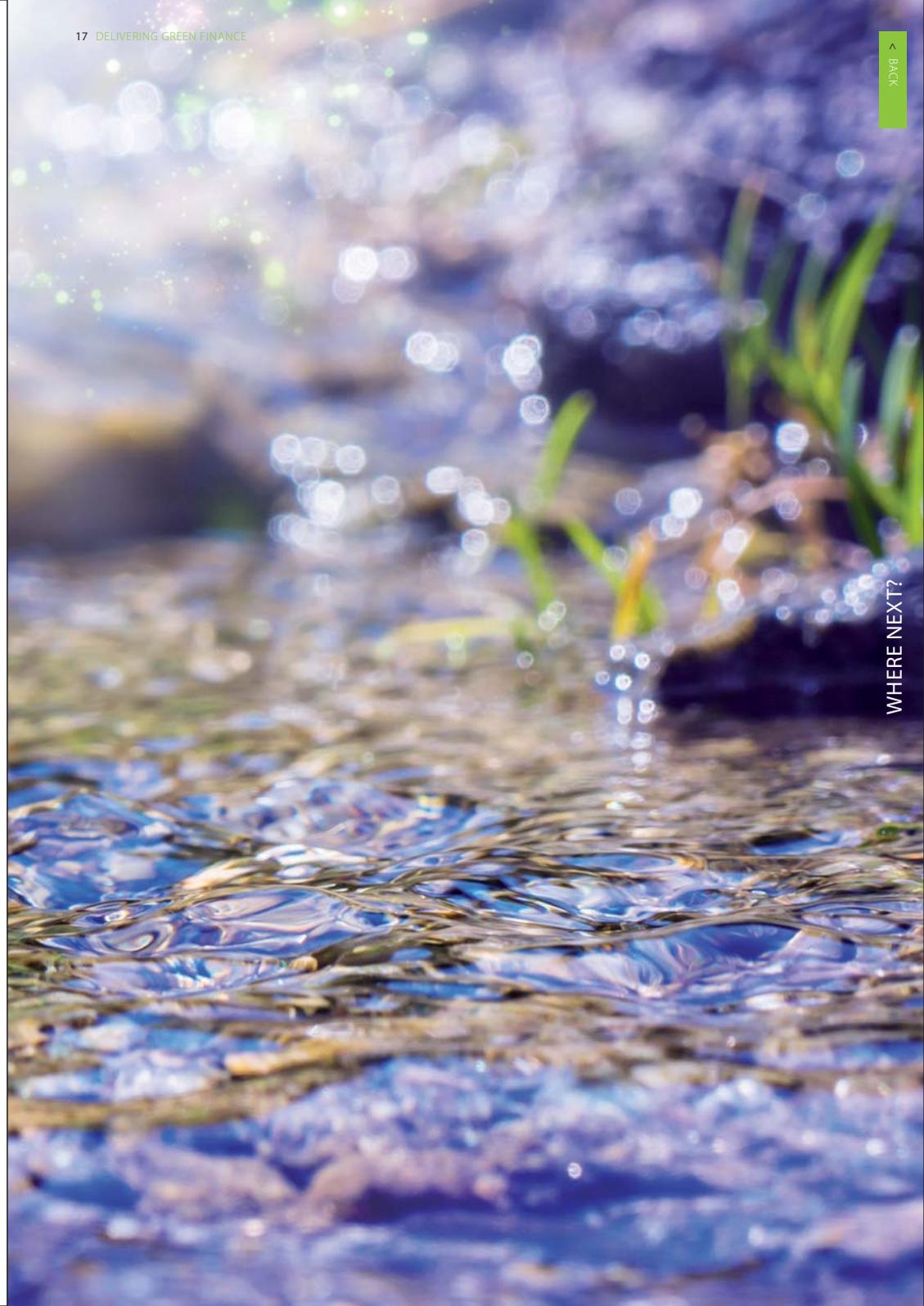
## Changing ourselves

We also support the transition to a green economy as a company. From identifying sustainable office supplies to increasing vegetarian meal options, our staff-led Green Committee is just one example of us putting into practice our green principles. More information can be found in our latest impact report.

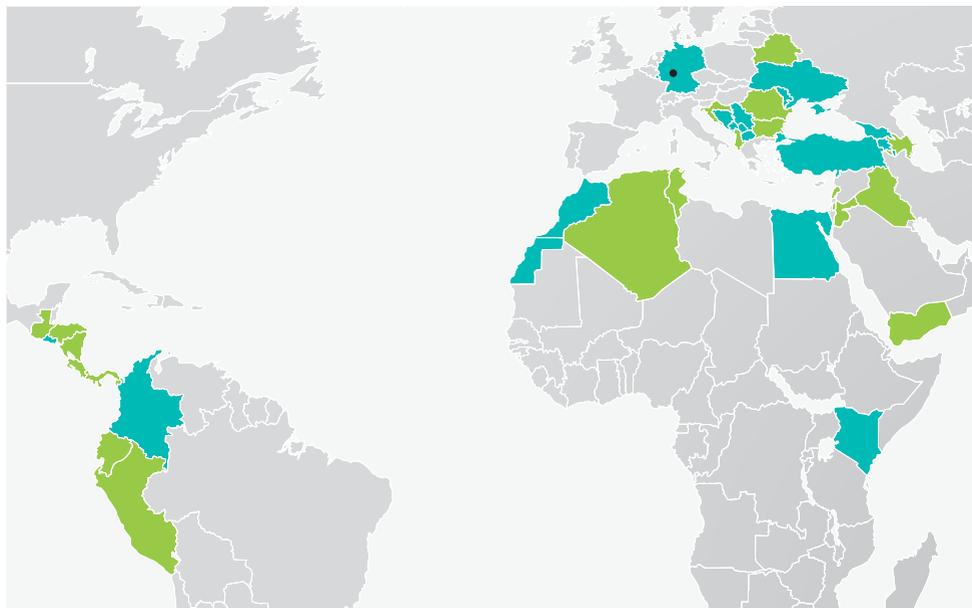
# WHERE NEXT?

We see the world's natural capital at a tipping point and are thus accelerating our efforts by attracting more private capital; further advancing financial instruments deployed, including the provision of local currency; expanding our network of aligned partners and stakeholders; and remaining focused on lasting impact and credible change. At the same time we understand that greening economies is a complex, yet urgent challenge that demands disruptive solutions to achieve tangible impact at scale quickly.

We therefore invest in research and development to expand the green asset class, establish our own green fund vehicles and undertake financial investments from our own capital in companies with innovative green business models. Finally, we are engaged in collective action with key stakeholders, both financial actors, as well as conservation organizations, research institutes, subject matter specialists, and other like-minded partners, as preserving the planet is a challenge too big to be addressed alone.



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- Additional target countries of Finance in Motion's funds
- Head office

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