

Green finance capacity building for financial institutions

Through timber construction, there is a future in which forests can support cities and, in return, cities can support forests. As the global population increases, particularly in cities, the construction sector is expected to exponentially grow in order to accommodate the demand for housing and other infrastructure. Current construction techniques are a significant contributor to the global climate crisis and urgently need to be transformed. By substituting the carbon-intensive materials commonly used in construction with forest economy biomaterials, such as wood and bamboo which sequester carbon, we can create buildings with reduced carbon emissions. However, this timber construction industry is still in its nascency and there is a need to address its market gaps and leverage opportunities to accelerate its development and increase its uptake.

These interventions for the mass timber construction industry can be segmented into seven main categories of solutions that affect the value chain and enablers of the ecosystem. Through various internal and external discussions, Climate Smart Forest Economy Program (CSFEP) has categorized potential solutions as relating to i) Finance and insurance; ii) Product and process certifications; iii) Communication and awareness building; iv) Timber knowledge ecosystem; v) Forest management and timber policies; vi) Value chain linkages; and vii) Timber-based real estate. The proposed solutions can be executed as for-profit, philanthropic, or blended ventures, with the services developed as individual offerings or paired with complementary services in a single offering. Additionally, while some solutions may be set up as a free-standing entity, other solutions may be similar to services provided by existing actors in or adjacent to the CSFE sector. In the case of the latter, it may make sense to approach these existing providers as potential partners to find a suitable and effective home for needed services.

FINANCE AND INSURANCE

There is a need to improve the overall understanding financial organizations have of the mass timber industry. There is room for these institutions to improve their participation and impact on the CSFEs in general. Financial institutions often struggle to understand the need for green financing and are unsure of how to evaluate these projects.

Creating green finance capacity building for financial institutions would equip financial institutions to identify and support the development of climate-smart initiatives. This would particularly be impactful in currently underserved geographies, like Africa, Asia, and Latin America. The agency would aim to:

- Foster an industry-wide understanding of the importance of incorporating green/sustainability criteria into financing requirements
- Bolster the ability of financial institutions to evaluate projects against criteria for climate, environmental, social, and economic sustainability
- Develop a pipeline of projects prepared to receive larger sources of green financing (e.g., green bonds, or venture capitalist and private equity funding)

Financial institutions have a role in developing a more sustainable future for our world and need to redesign their business models to accommodate this green transition and support sustainable impact. The United Nations Environment Programme Finance Initiative (UNEP FI) has developed guiding principles for responsible banking which help financial institutions embed sustainability into all aspects of their business. Institutes such as regulators, central banks, and financial supervisors can play a critical role in developing

monetary policy and financial instruments to mitigate the effects of the climate crisis. These guidelines have attracted widespread support among financial institutions. A report found that 94% of financial institutions that form part of the UNEP FI signatories identified sustainability as a strategic priority.¹

In order to develop a pipeline of climate-smart companies and initiatives in forestry, construction, and other key sectors and provide services in a zero-carbon and climate-friendly way, financial institutions will need to:

- Work with financial institutions to underscore the need to apply green/sustainable metrics to their lending criteria
- Work with financial institutions and regulators to develop or adopt green evaluation criteria
- Provide training for staff on how to evaluate potential and ongoing loan recipients against green/sustainability criteria

You can read more about how financial institutions can better incorporate green financing and sustainability in their business from the World Wildlife Fund's [Greening Financial Regulation Initiative](#).

¹ United Nations Environmental Program, Why financial institutions are banking on sustainability, 2022