5–7 October 2022 | Virtual Conference
SUMMARY

Discussions during the 9th OECD Forum on Green Finance and Investment focused on the theme "Moving from commitments to actions in the decade for delivery: towards impactful green and sustainable finance". As in previous years, the 9th edition of the Forum brought together the most influential global actors from both the public and private sector. From different starting points, various sessions held at the Forum considered how key stakeholders are responding to the urgent need to align the financial system with global environmental and development objectives. They also discussed policies and changes required to foster transformative investments in the real economy and achieve low GHG emissions and climate-resilient development while halting the loss of biodiversity and ecosystem services. The Summary below includes key takeaways for each of the sessions[1]. Replays of the sessions are available here.

Wednesday 5 October (Day 1)

High-Level Plenary: The way forward for transition finance - Launch of the OECD Guidance on Transition Finance

- Despite a recent proliferation of sustainable and transition finance approaches, there is a growing concern that net-zero commitments of corporates and financial institutions are not yet translating into real economy impacts and therefore not delivering the emissions reductions required to keep a global target of 1.5°C within reach. The need to encourage the development and disclosure of real economy transition plans has clearly emerged as one of the key priorities to ensure that the transition and sustainable finance market can grow with integrity and transparency.

- As highlighted in the OECD Guidance on Transition Finance, scaling up transition finance requires the mainstreaming of transition considerations in the planning and decision-making of corporates across all sectors of the economy. Governments and policy makers have a key role to play in addressing remaining gaps to enable the transition, including by developing country-level, sector-specific and science-based transition pathways and technology roadmaps, defining green and transition activities (e.g. through taxonomies) and providing clear and consistent incentives to ensure the transition is affordable and just.

[1] The opinions expressed over the three days of the Forum and reported in this Summary are solely those of the Forum participants and do not necessarily reflect the official views of the OECD or its member countries.

- The traffic light system of the Singaporean taxonomy is a promising example of innovative transition finance approaches. While this taxonomy could be applied to other countries in the region and could help lead taxonomy development by example, there is no one-size-fits-all approach, and taxonomies cannot be uniformly applied to all regions.

- Sustainability-linked bonds are an important and promising transition finance instrument, but anxiety over greenwashing and lack of ambition currently limits their potential. The OECD Guidance on Transition Finance aims to facilitate market development by addressing these areas of concern and recognising and dealing with issues that are currently lacking full consensus. The Guidance sets out ten elements of credible corporate transition plans, to form the basis of robust transition finance transactions.

- While the OECD Guidance provides more flexibility for small and medium-sized enterprises (SMEs), additional and targeted guidance with SME implementation feasibility in mind is also needed, in light of the limitations in resources and capacity that SMEs face.

High-Level Plenary: Improving market practices to finance a climate transition and strengthen ESG investing

- Evidence of key differences among ESG approaches and ratings methodologies is attracting increasing scrutiny from both public and market actors. Moreover, there is a gap between net-zero commitments by financial institutions and current trajectories of their portfolios and in the real economy.

- The current availability of quality, consistent and comparable climate-related data and metrics is insufficient.

- Implementing a global baseline for sustainability reporting emerged as a key priority, while also ensuring that local initiatives are compatible and coherent with globally agreed approaches to avoid fragmentation. Global coordination is needed to solve what is a truly global problem.

Financing infrastructure resilience and adaptation

- As investors try to avoid stranded assets, it is important to understand the value of the resilience dimension within the asset. In the long-term, resilience contributes to positive financial return and helps to manage the volatility of the investment. However, measuring the worth of the resilience dimension is complex and this type of data is difficult to obtain.

- Climate risk and impact assessments, both in quantitative and qualitative terms, can help inform long-term asset planning and should be considered at the design phase of climate-resilient infrastructure projects.

- When making green and sustainable investments in assets that serve adaptation purposes, investors need solid guidelines that take into account the complexity of infrastructure assets and

the importance of the actual location and the ecosystem of the asset. The approach must be systemic and look beyond the infrastructure asset itself.

Financing the responsible retirement of polluting assets: Can a just transition be profitable?

- Financial profitability should be holistically defined to include the quality of finance needed by a country, and not only financial returns. Among other factors, fiscal constraints, development priorities such as health and education, as well as sustainable risk-sharing between the public and private sector should be considered in relation to the definition of financial profitability.

- A just transition requires a multi-stakeholder approach and continuous social dialogue between unions, governments, businesses and employees to ensure that the transition delivers quality jobs that respect labour standards. Nonetheless, engagement must be meaningful and timely.

- A just transition requires a systemic perspective and a country-integrated holistic approach, where the mobilisation of a whole-of-economy transition helps to form the foundation for just and sustainable finance.

- The green and just transition offers an opportunity for the international community to align its support and cooperation, but also to improve the international financial ecosystem. Relevant initiatives include standardisation of risk-mitigation instruments for currency risk and off-taker risk, and the use of capital markets to channel institutional investment, among others.

- The Energy Transition Mechanism is making significant progress by focusing on people, policy, public sector and partnerships. In particular, the announcement by Indonesia, under its G20 Presidency, to retire coal-fired power plants is a big step considering that Asia is home to 90% of young coal-fired power plants.

Thursday 6 October (Day 2)

Opening and Fireside Chat: The role of central banks and finance ministries in greening the economy in Southeast Asia (co-organised with ASEAN+3 Macroeconomic Research Office (AMRO))

- Climate, environment and ESG risks pose significant threats to financial and price stability. Central banks can play an important supporting role in the green transition through improved banking supervision and supportive monetary policy, awareness-raising as well as support for developing taxonomies, amongst other tools.

- Central banks’ involvement in green finance is necessary to help the financial sector to better assess both climate and biodiversity risks, including related impacts and dependencies. Southeast Asian central banks are actively participating in greening the financial system, with the Central Bank of Malaysia having developed promising climate stress tests. However, modelling still needs to be improved. To this end, the Central Bank of Malaysia is conducting joint research with the World Bank to assess biodiversity-related financial risks from an impact and dependency perspective.

- The Central Bank of Philippines is making impactful progress in their sustainable finance roadmap. They require banks to conduct vulnerability risk assessments and provide risk management guidelines for the banking sector to better understand how ESG risks manifest in traditional risk channels. They require due diligence investigation to prevent harmful environmental and social externalities, to help keep banks accountable and prohibit engagement in greenwashing. They also are currently developing a sustainable finance taxonomy and will soon launch their central banking strategy.

Fireside Chat: Can we avoid green finance inequity?

- Developing countries are home to 70% of world energy demand and 60% of world GDP, have the biggest infrastructure gap and will see the majority of population growth. Yet, it is estimated that developing countries have only captured 10% of ESG investment flows and 14% of global green bond issuances.

- There is a need for enhanced and standardised outcome-based reporting and disclosure systems that allow investors to make informed investment decisions and effectively address the development needs and gaps that developing countries face.

- It is also necessary for governments and the private sector to consider the distributional impacts of the green transition deliberately and carefully and ensure that the impacted communities are not left behind. Going forward, a greater focus should be devoted to financing adaptation action.

- To mobilise finance and channel institutional capital into the green transition in developing countries, blended finance should be made mainstream. It is important to consider the role of larger multilateral development banks in mobilising private finance. There should be a multiplicity of financial instruments developed to finance the sustainable transition, beyond debt financing, such as through export credits, equity, guarantees and local currency financing.

How to shift the passive trillions in investment index funds to net zero?

- Index funds play a key role in driving asset allocation and investment in favour of climate transition. While several asset managers have committed to net zero, most of them have only committed their active mandates; in most cases, index funds, which are passive, remain largely unaffected. Limited commitments to net zero by index funds could significantly hamper climate action and climate-aligned investments in the real economy. Since the managers of index funds delegate most of their investment decisions to index providers, the latter can play a major role in enabling greater climate alignment of index funds.

- The extent to which index funds support asset managers' net-zero targets is coming under greater scrutiny. Current methodologies for green and Paris Agreement-aligned indices can differ widely. Green indices use benchmarks based on companies' past emissions, which can result in low levels of diversification. Paris Agreement-aligned indices, which include a wider range of assets, require forward-looking metrics for their development and quality monitoring over time.

- Mandatory company disclosure for Scope I and Scope II emissions will benefit the green index fund market as well as the climate transition overall. Disclosure on Scope III is also necessary, and while investors are hesitant about disclosure of Scope III emissions as it is primarily estimated rather than reported, companies should continue to measure and disclose them.

Making the most of subnational green budgeting to mobilise private finance to support climate action

- Subnational governments (SNGs) are turning to green budgeting as a tool to help them diversify their investments and mobilise additional capital to achieve their climate and environmental goals.

- Higher levels of government have a key role to play in disseminating green budgeting at the subnational level as providers of technical and methodological support as well as through incentivising green finance options that SNGs can then link with their green budgeting practices.

- The financial sector sees a role for green budgeting in facilitating SNG reporting for green bonds, green loans and other green financial instruments.

Connecting business and financial sector climate commitments to policy (Part 1): The role of responsible business conduct standards

- The OECD Guidelines for Multinational Enterprises (MNEs) and the OECD Due Diligence Guidance for Responsible Business Conduct (RBC) are relevant instruments and frameworks for sustainable finance, as they help operationalise norms and standards into a practical step-by-step approach and they connect the E and the S of ESG.

- The step-by-step approach of RBC can be applied in the context of financial sector stewardship to operationalise net-zero commitments, as investees need to show evidence on each step of the RBC framework to investors on how they are operationalising targets.

- The environmental pillar of the MNE Guidelines needs to acknowledge the role of policymakers, clarify the links to the Task Force on Climate-Related Financial Disclosures, and encourage development and disclosure of transition plans.

Connecting business and financial sector climate commitments to policy (Part 2): Assessing alignment with climate mitigation policy goals

- A myriad of private companies and financial institutions are committing to net zero, but there is concrete evidence that they are not moving at the scale or speed needed to reduce carbon emissions in line with the temperature goal of the Paris Agreement.

- Calibration and transparency are two key ingredients, but success is conditioned on broad collaboration between finance, industry, policy and society, among others.

- We must de-couple economic success from carbon emissions and let science guide business and policy decisions to successfully transition to 1.5-degree societies.

- Pre-existing institutional failures need to be addressed. The current international finance architecture was not designed to deal with the ongoing climate and nature emergency.

Transitioning to net zero: The role of carbon pricing and corporate income tax

- The new OECD report *Pricing Greenhouse Gas Emissions* is now expanding the scope of the series from effective carbon rates and for the first time includes net effective carbon rates, accounting for negative carbon prices resulting from fossil fuel subsidies.

- The energy crisis requires action, but rather than increasing the number of allowances, the EU Emissions Trading System should frontload a share of allowances to stay within their 2030 goals.

- Taxes and tax credits play an important role for lowering the cost of capital for investments in necessary technologies for climate transition. However, changes to corporate taxation (e.g. new investment tax credits) have to be credibly permanent for long-term investments to be made.

Achieving a resilient transition: Adapting to physical climate impacts

- While risk disclosure to external investors is widely discussed, internal transparency is as critical, for ensuring their right actions and resource allocation.

- Hyper-localised and context-based metrics for resilience are important, and success of local projects depends on active engagement from local communities. At the same time, consideration about a tangible system-level change should be advanced, while ensuring active engagement of all stakeholders from companies and investors to regulators and policy makers.

- Internal (corporate) governance and collaboration are key to achieve adaptation action. The agenda must be integrated into corporate strategy and commercial vision by bringing together related departments, including operations, finance and insurance departments, to harmonise approaches and share ideas.

Friday 7 October (Day 3)

Opening and High-Level Plenary: Biodiversity-related financial risks: Translating risks and the climate-biodiversity nexus

- 100% of the global economy is 100% dependent on the Earth's ecosystems. However, biodiversity and ecosystem services and their related risks, impacts and dependencies are currently not integrated into financial valuations.

- Climate-related risks and goals cannot effectively be addressed without addressing biodiversity and nature-related risks, given the interdependencies between the climate and nature crises.

- There are many challenging methodological and conceptual issues in assessing biodiversity-related financial risks. These include narratives, lack of modelling approaches and missing links between sectors. However, whilst substantial gaps exist, initial assessments of biodiversity-related risks are possible and the rate at which we incorporate biodiversity into financial risks needs to be unprecedented if we are to prevent systemic risks arising from the collapse of nature.

- Biodiversity-related financial risks are a new theme in the central banking community, but valuable assessments already exist, such as a relevant report by De Nederlandsche Bank, a report by the Banque de France and the latest report by the Network for Greening Financial System. In addition, the Taskforce on Nature-related Financial Disclosure has been launched.

- Some stakeholders with legitimate businesses are (wittingly or unwittingly) benefitting from nature crimes through their global value chains. To ensure that there are no nature crimes in their global value chain, they need to undertake due diligence.

- The European Commission (DG REFORM), together with the OECD and the Hungarian central bank (MNB), has just launched a project on "Developing a Supervisory Framework for Financial Risks Stemming from Biodiversity-related Losses". The project will develop a supervisory framework to help MNB and other central banks assess biodiversity-related financial risks in the financial system, including transmission channels for physical and transition risks.

Making blended finance work for the decade of delivery: What future for green, social and sustainability-linked bonds?

- The green, social, sustainability and sustainability-linked (GSSS) bonds market has enormous potential in helping to reach the SDGs. They are quickly gaining in popularity, but issuances are heavily concentrated in more developed markets, with only 6% of GSSS bonds currently being issued in ODA-recipient countries.

- Roadblocks to increasing issuances include a general lack of awareness of the instrument and how to align with international standards, high up-front set-up costs, lack of bankable projects and technical capacity constraints.

- There is a pronounced need for donors to act as market enablers as well as anchor investors to support issuers in developing countries.

Unlocking finance and scaling up capital for India's clean energy ambitions

- Blended finance is required to create the ecosystem to enable private finance to flow into new low-emission technology markets. This includes efficient use of grant money to provide payment and

credit guarantees, training and capacity-building, and support for regulatory framework development and raising consumer awareness.

- Government policy is an extremely powerful tool in catalysing capital into different sectors, both on the supply and demand side. Supply side policies, such as waivers of transmission charges and production-linked incentives, help drive down the costs of new technologies, while demand-side policies, such as blending mandates and carbon prices, help create demand.

- A key priority of India's Bureau of Energy Efficiency is to access new and advanced technologies. It looks to international partners like the OECD to share best practices and experience from other countries and to advise on policies, business models and financing mechanisms required to enable technology transfers to India.

Achieving ambitious climate and energy targets in times of crisis

- Ambitious climate and energy targets rely, amongst other things, on the supply of renewable energy equipment. However, market conditions, including slow and cumbersome permitting, auction regimes that reward the cheapest projects, and increased commodity prices coupled with locked contracts that prevent passing on increased costs, lead to a shortage of renewable energy equipment. It is necessary to ease permitting in the renewable sector, move beyond cost alone, go for quality, design, and recyclability, and expand manufacturing capacity in the renewables energy sector.

- The pressing danger of a critical mineral demand-supply mismatch in 2030 calls for increased focus on diversification and circularity. Circular economy and biodiversity are supporting components of energy efficiency and must be looked at in parallel.

- Reliable, affordable and independent energy investments are needed to ensure efficiency and connectivity along the entire value chain, as well as resilience and adaptation.

- In the building industry, mortgage portfolio standards are effective regulatory tools to increase median energy performance on mortgages and mobilise energy efficiency.

On the urgency of greening financial systems: Insights from India, the G20 and the role of development co-operation

- To foster the green transition, India needs support from developed countries to mobilise capital and technology, to change the incentive structure in India, as well as to help SMEs understand the benefits of sustainable growth and the green transition.

- To support SMEs participation in the green transition, the Small Industries Development Bank of India (SIDBI) granted credits, created sustainability perception indexes and risk-sharing facilities, and partnered up with the World Bank to share the risk for solar energy and solar power facilities, among other actions. However, further work is required to overcome digital and financial roadblocks.

- Among DAC members, there is a greater awareness to increase support and make financial flows aligned with Article 2.1 of the Paris Agreement, as reflected in the DAC Declaration for Climate Action. However, climate change and biodiversity loss are currently not factored in properly into the financial sector. DAC members must gear up to align their policies, assistance, tools and capacities to meet this key element of the Declaration.

- While risk-sharing between the public and the private sector is instrumental to success, delivery mechanisms to bring in private capital, such as credit enhancements and credit trusts, are necessary before the private sector can plausibly take on high risk-levels.

- India's upcoming G20 presidency brings the opportunity of a greater integration of India and the South in efforts to tackle bottlenecks of current global financial systems that diminish global financial flows to developing countries.

Progress towards the mainstreaming of impact management

- The International Sustainability Standards Board (ISSB) has made significant progress towards delivering a global baseline of sustainability-related disclosure standards that provide investors with information about sustainability-related risks and opportunities, including information on impacts that are material to understanding enterprise value. The ISSB also intends to strengthen its collaboration with other standard-setters to achieve interoperability.

- Sustainability disclosure is an important pillar of impact management, ensuring that companies communicate their sustainability-related impacts and risks to investors. However, sustainability disclosure needs to be accompanied by impact management practice. Companies, investors and financial institutions benefit from guidance from the partners of the Impact Management Platform (IMP) in managing their impacts.

- The landscape of impact management resources remains somewhat fragmented. Clearer guidance and greater interoperability would improve the uptake and effectiveness of impact management practices. Through the IMP, partner organisations are working to provide coherence across these different impact management standards and resources, and to address gaps.

The gender-environment nexus: Breaking silos in sustainable finance

- Green and blue economies can provide immense opportunities for women's economic empowerment, but such empowerment is only possible when women and girls have equal access to training, education and skills, and financing, among other enabling factors.

- Green and gender equality investments are mutually dependant and generate trade-ups rather than trade-offs. They should not be treated as two separate instruments. To break the silos, it is imperative to integrate gender into green governance, which requires multi-level action and policies at both national and corporate levels.

- While there are isolated good practices of women's involvement in the green transition in Africa, such as owners of solar panels companies in Nigeria and workers in electric vehicles companies in Kenya, scale-up requires the right policies to address structural barriers to women's involvement in green, typically male-dominated sectors, such as energy or transport. It also important to fucus on the challenges of women-dominated sectors that are directly and heavily impacted by climate change such as agriculture and tourism.

- Globally, women play a key role in protecting the environment and providing ecosystem conservation services. At the same time, women are under-represented in the carbon markets ecosystem. Further efforts are needed to better understand the link between carbon markets and women's empowerment and create opportunities for women to access and benefit from carbon crediting programmes.

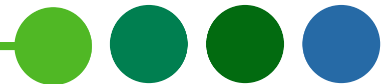
- Gender-responsive infrastructure financing requires the integration of gender considerations into the institutional culture, products and services. The Mexican National Bank of Public Works and Services (Banobras) is integrating gender though their gender perspective framework, using mechanisms of gendered pricing policy to give concessional interest rates aligned with their goals as well as through gender focused sustainable bonds.

CENTRE ON GREEN FINANCE AND INVESTMENT

OECD

5–7 October 2022

9th Forum on Green Finance and Investment: Key numbers



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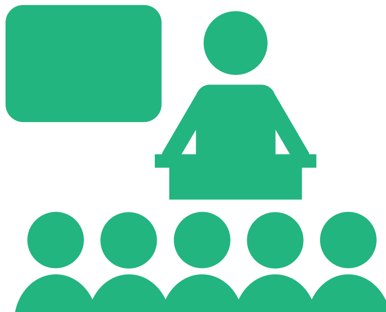
100+ speakers

including senior policy makers and key public and private actors



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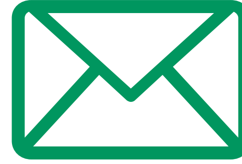

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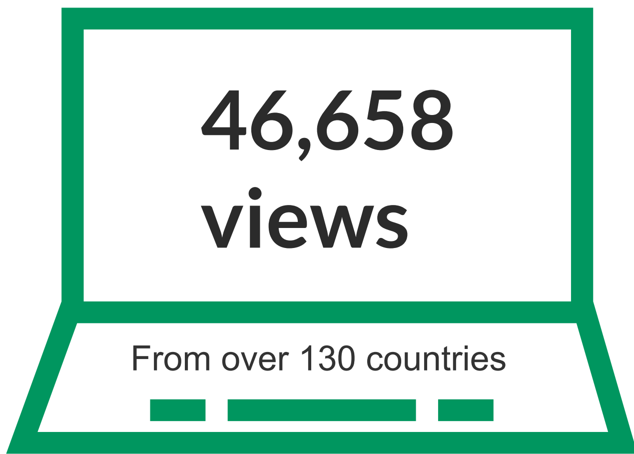

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