CENTRE ON GREEN FINANCE AND INVESTMENT FORUM 2018

**SESSION NOTE**

# Actions Across Government to Align the Financial System

13 November 2018- 10:15- 11:30

Achieving low emission pathways will require significant investment in low-carbon infrastructure and a reallocation of capital away from carbon-intensive assets. Existing and new infrastructure will also need to be resilient to climate impacts, requiring additional investment.

The OECD's report, *Investing in Climate, Investing in Growth* (2017), prepared for the German G20 Presidency last year, estimates that around 6.3 trillion US dollars of investment in infrastructure is required annually between 2016 and 2030, in order to meet global development needs. Making the necessary global infrastructure investments compatible with a low-carbon pathway would increase the overall need from USD 95 trillion to at least USD 104 trillion, increasing the average annual cost from USD 6.3 trillion to USD 6.9 trillion – thus the additional cost of making investments compatible with climate goals is not significant.

Understanding the role of the financial sector in the transition will be crucial in achieving a decisive transition: despite the abundance of capital available globally, the level of investment and financing of infrastructure in certain sectors – and especially low-emission and climate-resilient infrastructure – remains limited. Developing a better understanding of the investment challenges and the roles, expectations, and constraints of different financial actors for financing low-carbon investment, and particularly low-emission infrastructure, is needed. This will help both to guide policymaking and ensure that green infrastructure pipelines are attractive to investors and conducive to private financing. Through new and innovative financing instruments and channels, such as green bonds, market-based financing of green projects is growing fast. Governments play an important role in helping to align the financial system by providing an appropriate policy environment and establishing ambitious climate policies, targets, and investments, while seeking to mobilise private financing through de-risking tools and other forms of intervention.

There is also a growing demand for corporations, banks, institutional investors, and asset managers to integrate sustainability criteria into their operations, investment decisions, and risk management practices. There is also demand for regulators and central banks to integrate these considerations into their objectives and activities, with a view to making finance more responsive and resilient to climate and other ESG-related risks, and better "aligning" finance with the SDGs. Moving towards sustainable finance is seen as critical to strengthening financial stability and promoting better asset pricing, by integrating climate change and other environmental, social and governance (ESG) factors into asset management and investment decisions, along with other long-term material risks and intangible drivers of value creation (EU HLEG, 2017). More broadly, there is interest in how the financial system can be better structured to enable financing of long-term investment and overcome perceived shortcomings, including investor short-termism.

Several initiatives have been launched since 2015 to mobilise the financial sector in support of the Paris Agreement and the SDGs, including the creation of the industry-led Task Force on Climate-related Financial disclosures (TFCD); the EU initiative to examine how to integrate sustainability considerations into the EU's financial policy framework in order to mobilise finance for sustainable growth, which led to the establishment of an EU High-Level Expert Group (HLEG) on Sustainable Finance in 2016 and more recently the EU Action Plan on Financing Sustainable Growth. Other international organisations are engaged on these issues, such as UN Environment, through its Inquiry into the Design of a Sustainable Financial System, and with the World Bank through their joint Roadmap for a Sustainable Financial System. The OECD has supported the global agenda through analytical work, such as *Investing in Climate, Investing in Growth* (2017), which contains a chapter on the role of finance, and has established the OECD Centre on Green Finance and Investment.

## Useful Links

- OECD Centre on Green Finance and Investment: http://www.oecd.org/cgfi/
- FSB Task Force on Climate-related Financial Disclosures (TCFD): https://www.fsb-tcfd.org
- Recent TCFD Status Report: https://www.fsb-tcfd.org/wp-content/uploads/2018/09/FINAL-2018-TCFD-Status-Report-092618.pdf
- EU Action Plan European Commission's Action Plan on Financing Sustainable Growth: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN
- EU High-Level Expert Group (HLEG) on Sustainable Finance final report: https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en
- Network on Greening the Financial System (NGFS): https://www.banque-france.fr/node/50628
- OECD (2018), *Synthesis Report: Financing Climate Futures – Rethinking Infrastructure*: http://www.oecd.org/environment/cc/climate-futures/
- OECD (2017), *Investing in Climate, Investing in Growth*: http://www.oecd.org/env/investing-in-climate-investing-in-growth-9789264273528-en.htm
- OECD (2017), *Investment Governance and the Integration of ESG Factors*: http://www.oecd.org/cgfi/Investment-Governance-Integration-ESG-Factors.pdf
- OECD (2017), Responsible Business Conduct for Institutional Investors: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf
- OECD (2011), *The Role of Institutional Investors in Promoting Good Corporate Governance* https://www.oecd.org/daf/ca/49081553.pdf
- G20 Green Finance Study Group (2016-17): http://unepinquiry.org/g20greenfinancerepositoryeng
- UN Environment and World Bank (2017), *Roadmap for a Sustainable Financial System*: http://unepinquiry.org/publication/roadmap-for-a-sustainable-financial-system