

SESSION NOTE

A financial system for the low-carbon transition and sustainable development

25 October 2017 – 09:00 – 10:40

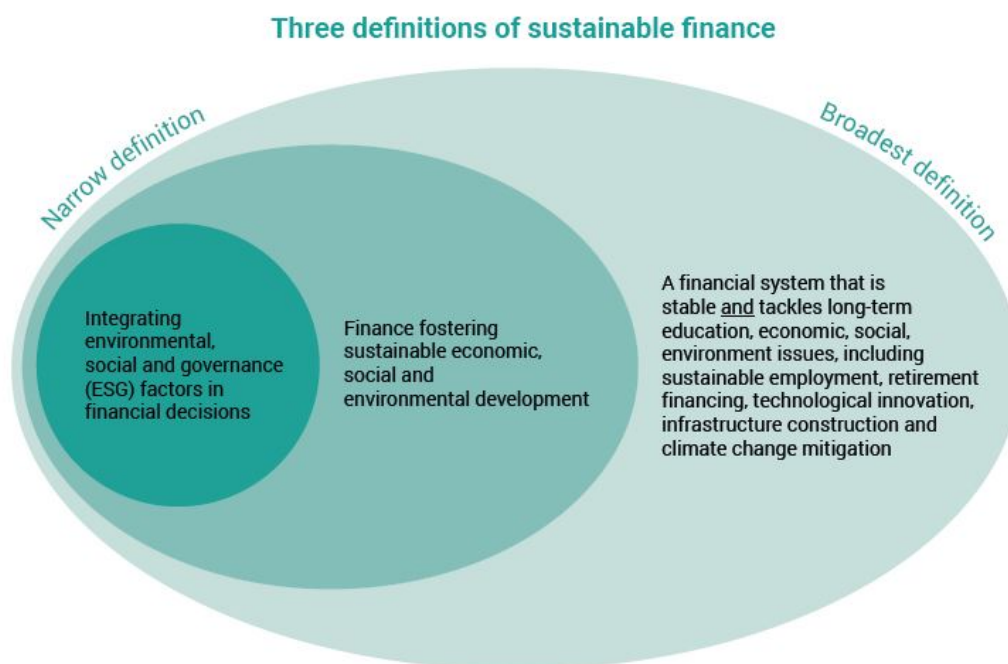
This session will explore how the financial system can help in delivering the transition to a low-carbon, climate-resilient economy and the achievement of the UN Sustainable Development Goals (SDGs). It will discuss key challenges and opportunities for green and sustainable finance, covering issues such as: transition risks and financial stability at the macro-level for the financial sector, and the role of disclosure in supporting the assessment of risks and opportunities by financial intermediaries; at the market level, the role of the various components of financial system, including banks, institutional investors, and capital markets, in providing financing mechanisms and channels, the governance of these institutions, and the underpinnings that could support an enhanced role for the financial sector, for instance through taxonomies, definitions, and product labelling; and the role of retail investors and their education and protection. This session will discuss key initiatives such as the EU High-level Expert Group (HLEG) on Sustainable Finance, the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and the UN Environment-World Bank Roadmap for a Sustainable Financial System. It will also discuss policy issues associated with supporting green and sustainable finance, as well as the role of the OECD to ensure the financial system is conducive to the low-carbon transition and sustainable development, through its Centre on Green Finance and Investment and relevant committees.

Scaling up financing for low-carbon, climate-resilient infrastructure is essential to implement the objectives of the Paris Climate Agreement adopted in 2015. However, the new OECD report for the German G20 Presidency, *Investing in Climate, Investing in Growth*, estimates that to deliver climate goals, a gap of around USD 2.5 trillion per year over the 15 year period to 2030 needs to be filled (compared to the USD 3.4-4.4 trillion of current level investment), while USD 6.3 trillion of infrastructure investment is required annually on average between 2016 and 2030 to meet development needs globally, regardless of climate concerns. An additional USD 0.6 trillion a year over the same period will make these investments climate compatible. In Europe alone, additional investments estimated to around EUR 177 billion per year are needed to meet the EU's 2030 climate and energy target. While there is no shortage of capital available globally to finance green infrastructure projects – the financial sector encompasses more than EUR 100 trillion of assets globally – the challenge is ensure a pipeline of bankable projects offering returns that are attractive to investors and respond to their risk management needs.

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, and 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 in 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.

Different potential definitions of “sustainable finance” were outlined by the HLEG in its July interim report (see below):



Source: EU High-Level Expert Group on Sustainable Finance (2017), Interim Report on Sustainable Finance, https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf.

Several initiatives have been launched since 2015 to mobilise the financial sector in support of the SDGs and the Paris Agreement, including the creation in 2015 by the Financial Stability Board (FSB) of the industry-led Task Force on Climate-related financial disclosures (TCFD); 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 the creation of the SDG Financial Lab by the UNGA. Other international organisations are actively engaged on these issues, such as UN Environment, through its Inquiry into the Design of a Sustainable Financial System. These initiatives have recently led to various sets of recommendations.

Furthermore, the G20 Green Finance Study Group (GFSG), under the German G20 Presidency, advanced work on a) environmental risk analysis (ERA) and b) datasets needed to support ERA, in particular publicly available environmental data (PAED). The purpose of this work was to deepen understanding of the nature, extent and effectiveness of ERA conducted in the financial sector, and assess how the sharing of ERA practices and techniques could be promoted, as well as how the availability, accessibility, and relevance of PAED – which underpins this analysis along with corporate disclosure – could be improved.

To support the PAED workstream, and in response to an interest on the part of GFSG members to facilitate policymaker and industry access to PAED, the OECD and UNEP initiated the preparation of a Catalogue on PAED (to be further developed, resource permitting) that identifies and briefly describes key global PAED, with hyperlinks to various levels of datasets: i) national and sub-national level data reported by IOs (e.g. OECD, UN Environment, UN FAO); ii) national and sub-national level data reported by regional organisations; and iii) data from other sources, such as NGOs and scientific research centres.

The OECD welcomes the efforts of the TCFD, HLEG, and GFSG to develop relevant recommendations and (for the GFSG) options. The OECD has long supported efforts to enhance the contribution of the financial system to the real economy and sustainable growth, and to assess how private finance can be tapped to support more resilient and inclusive economies and achieve broader social and environmental objectives. The OECD has conducted work on green finance and investment, long-term investment financing and infrastructure development, access to SME finance, capital market development, corporate governance, and responsible business conduct, and has elaborated standards, principles, and guidance in these areas.

The HLEG, in its interim report, recommended that the EU display global leadership by promoting a common interpretation of fiduciary duty at the international level, including via an OECD convention on fiduciary duty. The OECD Secretariat has submitted written comments to the EU public consultation on the draft recommendations of the HLEG interim report on sustainable finance. The OECD has a potentially important role to play by serving as a platform to promote dialogue across governments, industry, and other key stakeholders and advancing work and progressing good practices on complex issues such as fiduciary duty and investment governance, a taxonomy of green assets, and green bond standards, which could potentially lead to international policy guidance and instruments or more convergent practices.

Useful links

- Climate Alignment Pilot Tests by Switzerland: <http://www.transitionmonitor.com/en/home>.
- Climate Finance Accelerator initiative by Luxembourg: www.luxembourg.public.lu/en/actualites/2017/06/28-climate-finance/index.html.
- OECD Centre on Green Finance and Investment: www.oecd.org/cgfi/.
- OECD (2017), Investment Governance and the Integration of ESG Factors, www.oecd.org/cgfi/Investment-Governance-Integration-ESG-Factors.pdf.
- OECD Guidelines for Multinational Enterprises: www.oecd.org/corporate/mne/1922428.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*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264128750-en>.
- EU High-Level Expert Group on Sustainable Finance interim report: https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en.
- FSB Task Force on Climate-related Financial Disclosures (TCFD): <https://www.fsb-tcfid.org/>.
- G20 Green Finance Study Group: <http://unepinquiry.org/g20greenfinancerepositoryeng>.
- G20/OECD Principles of Corporate Governance: www.oecd.org/corporate/principles-corporate-governance.htm.
- Luxembourg – EIB Climate Finance platform www.eib.org/infocentre/press/releases/all/2016/2016-249-luxembourg-and-the-eib-pioneering-in-the-field-of-innovative-climate-finance-to-support-high-impact-climate-action-projects.htm.

- New pathways: Building blocks for a sustainable finance future for Europe (Finance Watch, 2017): www.finance-watch.org/our-work/publications/1445.
- Publications of 2° Investing Initiative: www.2degrees-investing.org/#!/page_Resources.
- Roadmap for a Sustainable Financial System by UN Environment and World Bank: <http://unepinquiry.org/publication/roadmap-for-a-sustainable-financial-system>.