Institutional Investors and the Low-Carbon Transition

9th Annual OECD High-Level Breakfast Event hosted by OECD and IIGCC

On 10 December in Katowice, the 9th annual High-Level Breakfast on Institutional Investors and the Low-carbon Transition, co-hosted by the OECD and the Institutional Investors Group on Climate Change (IIGCC), highlighted significant progress in mobilising green institutional investment, as well as important remaining challenges.

Several initiatives were announced at the event:

- IIGCC announced that the 2018 Global Investor Statement to Governments on Climate Change was now signed by 415 investors representing more than USD 32 trillion in assets. This statement reiterates investors' support to the Paris Agreement and strongly urges all governments to implement climate action.
- International Finance Corporation (IFC) stressed that the World Bank Group announced in December new climate targets for 2021-25, doubling its current five-year investments to around USD 200 billion in support of countries' climate action.
- The European Investment Bank (EIB) has issued its first Sustainability Awareness Bond, building on the success of its Climate Awareness Bonds.

These announcements demonstrate commitment to mobilise institutional investment and the need to send clear signals from investors to policymakers and negotiators. The event notably discussed ongoing efforts by the European Commission to support sustainable finance. The Commission is seeking to develop a common language for green projects (through a new green taxonomy and benchmarks) and support enhanced climate-related disclosures, which can provide the certainty and transparency investors need. Clear signals are also needed from policy makers, including through transition-friendly price signals. But participants also highlighted challenges to achieve a just transition (such as "taxpayer fatigue", as highlighted by the "yellow vests" protests in France), and the need for policies to benefit regions and people who otherwise could be negatively impacted.

To achieve the transition, investors and societies need to focus not only on green investments, but on traditional infrastructure and other investments throughout the economy. Public and private stakeholders need to better take into account the risks of investments in fossil fuels, the benefits of developing the low-carbon economy, as well as the moral dimension of investment decisions. Progress in developing the green bond market is justly applauded, but as participants noted, green bonds only account for 2% of all bond issuance. The focus needs to turn to the remaining 98%, and to the broader economy, beyond just green investment. In order for green plus brown to equal 1.5 degrees, we need to urgently address both sides of the equation.

For emerging economies and developing countries, more and better targeted blended finance will be a key enabler. Building robust pipelines of low-carbon infrastructure, as called for in a new OECD report, is essential. To do so, governments – with support from MDBs and bilateral donors – need to strengthen their domestic enabling environments to attract long-term investment, both domestic and international. New infrastructure planning and investment in all countries needs to get past the business as usual mindset that clean technologies are more costly. This mindset is now obsolete. Green investment is good for business and good for people.