



11–14 October 2021 | Virtual Conference

“Green finance in the decade for delivery: Driving environmental impact”

SUMMARY

Discussions during the 8th OECD Forum on Green Finance and Investment focused on the theme “Green finance in the decade for delivery: Driving environmental impact”, responding to the urgent need to ensure that sustainable investments deliver the impact and progress required to achieve global environmental and development objectives. Mainstreaming green finance will require a whole-of-economy approach to channel funds to “net-zero” or “near-zero” investment opportunities, as well as progressive decarbonisation activities in high-emitting sectors. It also requires considering impacts of all investment, including low- and zero-carbon investment, on biodiversity, water and the well-being of society as a whole, while ensuring that climate resilience is built into all new investments.

The 8th edition of the Forum brought together a host of influential global actors to connect the dots and advance the global climate and green finance agenda. In the run-up to COP26, the Forum provided a unique opportunity for actors in the private and public sector to exchange views on a range of critical issues, goals, and priority actions as we enter the most crucial decade in our fight against climate change.

Key Messages across the Four Days of the Forum¹

- Supporting the transition towards low-emission economies requires transformational changes to the financial system. The concept of fiduciary duty needs to be re-thought in a way that allows investors to take into account the impact of investment decisions on people and planet.
- Factors preventing the mainstreaming of green finance include fragmented green and sustainable finance and investment regulation, lack of alignment among taxonomies, limited ease of use of taxonomies, and competing policy priorities due to the COVID-19 crisis.
- ESG investment is increasing. However, rapid growth of this market and evidence of key differences among ESG investment approaches and ratings methodologies has prompted greater scrutiny from both public and market actors. Available, robust and consistent data, along with transparent and comparable methodologies are needed to align ESG investment with climate policies.
- Sovereign wealth funds (SWFs) are increasingly aligning with their governments’ climate policies, but most SWFs only focus on reporting and risk rather than avoiding negative impact. Barriers to portfolio alignment with climate policies include the absence of a common definition for realistic

¹ The opinions expressed over the four 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.



transition trajectories, and of useful benchmarks against which to assess transition plans as well as clearly defined metrics of impact.

- The financial sector does not sufficiently account for physical climate risks, notably water-related risks, which will become increasingly financially material. More granular scenario analysis accounting for the interconnections of environmental impacts across sectors will be pivotal for a healthy financial sector, but is not yet available.
- The continued importance of emissions-intensive sectors underlines the urgent need to scale up finance for enabling feasible emission reductions for high-emitting and hard-to-abate sectors. Methodologies and meaningful metrics to assess progress on net zero targets and transition plans need to be transparent and verifiable across countries and regions.
- Meeting net-zero objectives requires public financial institutions and relevant actors to take action towards supporting SMEs in the transition towards low-carbon business models.
- Plugging the global USD 4 trillion gap for clean energy finance by the 2030s requires increased co-operation between the public and private sector as well as sound and transparent policy frameworks. As part of this increased effort, development finance institutions (DFIs) and multilateral development banks (MDBs) need to play a key role for catalysing private finance in developing countries, including through blended finance mechanisms.
- Environmental, gender and other social considerations need to be systematically integrated in national policies, corporate actions and financial market practices and regulations. This includes increasing women's presence in decision-making processes and positions, in both the public and private sector.
- Governments urgently need to find a supra-national institutional arrangement whereby beneficiaries of global ecosystems contribute to paying for them. Ecosystems are currently not viewed as assets by economic and financial accounting, and therefore ecosystem degradation is not accounted for in economic growth metrics or market prices.
- To tackle the looming triple crisis of sovereign debt, climate change and biodiversity loss in developing countries, innovative financial instruments such as sovereign sustainability-linked bonds need to be developed and mainstreamed.



Monday, 11 October (Day 1): Rethinking the finance agenda in the “decade for delivery”

Opening Plenary: Outlook on green finance and the low-emissions transition on the eve of COP26

- Major challenges remain in the run-up to COP26. They include the lack of strong climate-related finance and investment regulation, competing policy priorities, as well as tightened fiscal space due to the COVID-19 crisis, especially in emerging and developing countries.
- Financial actors continue to view environmental issues primarily as a risk rather than an opportunity when building portfolios, which can undermine their efforts toward net-zero portfolios. A swift introduction of strong regulatory norms and practices, including internationally agreed rules, could help bring trust into efforts to green investments and finance. The perceived and real lack of data should not keep the financial sector from moving forward.
- Public finance needs to be climate-aligned without exception. This includes the need to agree on a date for phasing out fossil fuel-related investments and subsidies and on a strong climate alignment of investments by multilateral development banks.
- The green share of COVID-19 recovery spending needs to be increased while environmentally harmful recovery measures need to be abandoned or replaced. The opportunity to align public finance in this recovery is squandered by stimulus measures in OECD and other large economies, where green investments currently account for only 20% of the total.
- MDBs have a key role to play to mobilise private finance to support the low-emission transition. They must contribute to finding transition pathways that are climate-aligned and affordable given competing priorities, as well as finding effective instruments for public-private investment to deliver on scale.

High-Level Plenary: Thinking beyond COP26: Transforming finance for people and planet

- The net-zero transition needs to involve all key sectors and should be built on a new social contract, integrating social and economic policy considerations.
- Translating the Paris Agreement goals into concrete outcomes will require better incentives in the financial system, with a focus on equity financing, not only debt. Consistency in sustainability reporting frameworks is needed, along with forward-looking metrics.
- ESG scores should not be conflated with indicators of sustainable investing. While increased ESG investing could in principle align with environmental policy goals, ESG scores are better understood as elements of a risk framework to align with long-term value.
- More standardisation, transparency and ease of use of ESG and taxonomy approaches is needed for green investment to be mainstreamed efficiently. Current ESG and taxonomy are a sign for a shift in the right direction, but are generally neither forward-looking nor well-aligned among each other.



- For engagement or divestment strategies to have impact, commitments need to be strong, credible and transparent. Forward-looking metrics could help investors carry out credible engagement strategies and support companies that aim to be green, rather than only those that already are green.
- While climate change is currently the dominant topic in disclosure discussions, other aspects of green finance like biodiversity need to be included in disclosure recommendations and requirements. The scope of current reporting frameworks can be expanded over time, e.g. to biodiversity and nature-related information as well as social aspects.

Tuesday 12 October (Day 2): Developing transition finance, promoting climate alignment, and ensuring market efficiency

Fireside Chat: Investor action in response to the global climate emergency - leading or lagging?

- Incentives for and within the financial system need a radical redesign to move investors onto a path to well-below 2 degrees. The concept of fiduciary duty for investment managers needs to be rethought and redesigned in a way that allows investors to take into account the impact of investment decisions on people and planet.
- Central banks and financial regulators need to take action to align with the goals of the Paris Agreement and ultimately unlock the scale of capital allocation for climate action.
- The varied mix of actors in the ESG investing space led to the proliferation of different approaches and ratings methodologies towards the integration of ESG factors in portfolios. There probably will never be one single model to evaluate ESG factors.
- While standardisation will be important going forward, approaches for evaluating ESG performance need to be allowed to evolve with new climate science and financial information. However, there are tools that can help assess and compare investments in meaningful way, and a lot of the input data can *already* be agreed on.
- It is important to monitor the direction and development of this market as it matures, as there starts to be a backlash against ESG investing given the rapid growth of the industry and the high risk of greenwashing.

High-Level Plenary: Transition finance, Recovery and Alignment

- As the bulk of economic activity still takes place in emissions-intensive sectors, there is an urgent need to not only scale up finance for zero or near zero-emitting technologies and businesses, but also to enable feasible emission reductions for high-emitting and hard-to-abate sectors.



- Policy makers should set the right policies and regulations to level the playing field and enable a shift of capital towards low-emission and transition activities, as capital tends to flow where opportunities for growth lie.
- Financing is required to reduce emissions from existing processes and activities and assets already in use, not just to fund new low-carbon assets.
- Transition finance approaches need to understand each country's unique starting position and work together towards common approaches. Net-zero strategies need to take into account diversity in countries' stages of development and transition pathways.

Taking stock of transition finance approaches (Part I)

- Given the key role of natural resources in the Canadian economy and society, a group of industry stakeholders is currently developing a transition finance taxonomy as part of a National Standard of Canada for Transition Finance, based on the recommendations put forward in the Government of Canada's Expert Panel on Sustainable Finance. The taxonomy aims to balance ease of use with robustness and credible demonstration of alignment with the Paris Agreement.
- Recognising the need for the financial system to provide finance for decarbonisation of the Russian economy, in 2020, the Russian state development bank VEB.RF published the Russian Green Finance Guidelines to stimulate private investment in green projects. VEB.RF developed a Taxonomy for Green Projects, outlining criteria for projects with zero or near-zero emissions, and a Taxonomy for Adaptation Projects, outlining criteria for projects that help the economy adapt to the effects of climate change.
- Singapore's proposed taxonomy aims to accelerate investment to meet environmental objectives of Singapore and other ASEAN members. The taxonomy is aligned with other global taxonomies, includes a traffic light classification system (green, transition and non-sustainable activities), and incorporates a combination of principles-based criteria and quantitative, science-based thresholds for practical implementation. Transition finance is particularly important in the Asian context, as Asia contributes to half of the world's emissions while still facing a significant electricity access gap.
- At the EU level, there is recognition that reaching climate neutrality by 2050 requires inclusive transition financing for companies and other economic actors working to improve their environmental impact. The EU aims to develop a framework and tools for transition finance needs, e.g. by extending the EU taxonomy. This extension would support the urgent transition to a low-carbon, climate-resilient and more sustainable economy, as laid out in the EU Green Deal. The EU is also working on sustainable finance labels and improving reporting mechanisms to prevent greenwashing, through the Green Bond Standards.
- While the recent uptake of transition finance instruments such as sustainability-linked bonds and loans has been broadly described as promising, two main challenges must be addressed to boost investor confidence. First, there is a high risk of greenwashing due to lack of transparency and



limited ambition of corporates' targets. Second, penalty mechanisms could inadvertently create perverse incentives, as the investor gains from the issuer failing to fulfil its sustainability targets.

- As solutions, panellists pointed to the need to develop credible and robust transition finance frameworks, which could set high bars for climate alignment. The OECD is currently consulting with relevant stakeholders to develop OECD High-Level Principles for Transition Finance.

Strengthening ESG practices and climate transition in financial markets

- International co-ordination was highlighted as key across both public policy and financial market oversight, with a need to develop strategies to address short-, medium- and long-term needs to facilitate low-carbon transitions. This includes a need to balance disinvestment with active engagement and policies to support a shift in incentives for a low-carbon transition throughout financial market activities.
- Establishing interoperability and coordination across sustainable finance approaches will be important, to ensure jurisdictional flexibility without contributing to global fragmentation. Market participants also need transparent, comparable and reliable information to measure and manage climate-related risks in financial markets.
- Panellists called on the OECD to support international engagement on comparable metrics and methodologies, including developing definitions, principles, and due diligence guidance for transition finance and the climate alignment of finance.

From transition to climate-aligned finance: Key measurement issues and challenges (Part II)

- There is great momentum among financial institutions, policy makers and civil society to design frameworks, methods and metrics to assess the alignment of finance with the Paris Agreement goals.
- Methodologies and meaningful metrics to assess the alignment of finance with climate policies or net zero targets should be transparent and their application should consider local circumstances. Robust and consistent data is imperative for the alignment of finance and climate policies.
- Work remains to be done to ensure coherence of such methods and metrics while taking into account different transition pathways at sector and country levels.

Financing SMEs to accelerate the green transition in countries, regions and cities

- Meeting net-zero objectives requires financial institutions to think about how to support SMEs in getting access to finance to decrease their carbon footprint. SMEs need simple, practical guidance information and tools to support them in the transition towards low-carbon solutions - tools that take into account SME heterogeneity.
- Subnational governments are powerful catalysts for SME targeted funds. Beyond the money they put on the table to initiate public-private funds, like the Paris Fonds Vert, regions and cities bring



their name, which is a brand. They also bring local culture and knowledge of local climate change and development challenges. This context-specific knowledge helps inform investors' choices and helps companies understand the key drivers for tackling climate and development challenges.

- There is a need to increase international collaboration and engagement with SMEs and raise awareness of sustainability actions among SMEs. Effective incentives should be put in place to catalyse the SME green transition, taking into account heterogeneity between regions, especially in terms of diversity in capabilities.
- The OECD can play an important role in catalysing international collaboration on financing SMEs for sustainability. It can help to identify differentiated approaches for different types of SMEs, operating in different places with diverse conditions.

Wednesday 13 October (Day 3): Mobilising capital to meet urgent environmental objectives

High-Level Plenary: Mobilising private capital for clean energy in emerging economies

- Ensuring the transition to clean energy is fair and inclusive, leaving no country behind, is paramount. Implementing a clean energy transition in developing countries will be essential to meet Paris Agreement objectives, given that these countries represent the main source of future growth in greenhouse gas emissions.
- Creating a sound and transparent policy framework is crucial to help increase the pipeline of clean energy projects in emerging economies and help mobilise private finance. For example, in Indonesia, the Financial Services Authority, OJK, developed a two-phase sustainable finance roadmap and regulations aiming to build the sustainable finance ecosystem needed to help the country achieve its SDGs and meet Paris Agreement objectives. Still, the nominal cost of capital in developing economies remains up to seven times higher than in the United States and Europe.
- A major increase in global financing flows is needed to accelerate the clean energy transition. The IEA estimates that USD 4 trillion of annual investment is needed to fund clean energy worldwide by 2030. While there is no shortage of global capital, investment flows still do not find their way to clean energy projects in developing economies, which continue to account for a relatively small share of global clean energy spending.
- More and better cooperation between the public and private sector is needed to spur the expansion of renewable energy and energy efficiency markets in developing economies. While good examples exist, international collaboration and public support to de-risk clean energy projects and unlock private capital still needs to be stepped up.
- Development finance institutions (DFIs) have an important role to play, including through further leveraging blended finance mechanisms. For example, Norway's DFI, Norfund, specialises in providing financing to mobilise capital for sustainable development in developing countries, with a



focus on clean energy. By the end of 2020, almost half of Norfund's portfolio was invested in clean energy projects, especially in hydropower, wind and solar energy, and in utility-scale, grid-connected power plants.

Tackling the Debt, Climate and Nature Crises in the post COVID-19 economic recovery

- A Triple Crisis of debt, climate change and nature is looming, which, if left unaddressed, will present a systemic risk to the global economy. The COVID-19 pandemic triggered a global health and economic crisis and increased sovereign debt in developing countries, which further increased their vulnerability to shocks. Developing countries are also the most vulnerable to climate change, and face biodiversity loss and ecosystem services degradation.
- To help developing countries in addressing this triple crisis, the World Bank, IMF, OECD and other organisations are working to establish a new Global Platform to support mobilising affordable (public and private) financing for a green and blue economic recovery and scaled-up nature and climate actions. The Platform will explore policy and financial levers as well new financial instruments to fund natural capital, including sovereign sustainability-linked bonds.
- Joint actions by both the public and private side will be critical, with a proper identification, targeting and sharing of risks. Banks must play a central role in supporting companies to improve and better report on their sustainability performance, by engaging with them and explaining that sustainability regulations and policies for banks will ultimately have repercussions on companies' performance and cost of capital.
- Nature and human capital considerations have not yet been integrated into financing equations. Going forward, innovative financial instruments and approaches are needed to scale up climate and nature investments in developing countries. Mainstreaming sustainability criteria into existing instruments and approaches is also required.

Promoting gender equality and women's economic empowerment through green policies and finance

- Environmental, gender and social considerations need to be systematically integrated in national policies, corporate actions and financial market considerations. Women's presence in decision-making processes and positions, in both the public and private sector, needs to be increased.
- In public financial management, gender budgeting is a fundamental element in this effort. Canada's mainstream gender budgeting approach is a leading example. It was applied to integrate gender equality and diversity considerations in budget decision-making, and also to ensure the achievement of inclusive COVID-19 recovery efforts.
- Gender equality considerations should also be better integrated in climate policies and NDCs. According to UNDP, while the integration of gender considerations in NDCs has increased over the last years, only 28% of the reviewed NDCs recognise national equality policies as part of relevant climate policy framework and only 15% of these NDCs mention gender in relation to finance or climate finance.
- There is an urgent need to ensure more funding is in the hands of women and women-led businesses. Women are still missing as leaders in business communities, societies and public sector,



especially in developing countries. According to the IFC, companies with more women board members were associated with better financial performance. On average, ASEAN companies that had boards with more than 30% female membership had an average return on equity of 6.2%, compared to 4.2% for companies with no women on the board.

- In the ESG investing space, more research and better data on the relationship between corporate gender diversity and environmental and sustainability performance are needed. According to MSCI, companies with “sustained board diversity” (i.e. with boards that included at least three women directors for at least three consecutive years) have better ESG ratings and stronger environmental performance. This emerging evidence and findings need to be consistently considered in decision-making processes.

High-Level Plenary: Physical climate risks and the financial system: A spotlight on materiality

- Physical climate risks, notably water-related risks (floods, droughts, water stress, rainfall variability, pollution, etc.), are already posing challenges for the financial system and the economy and will be increasingly financially material in the future. Addressing these risks is financially viable; risk reduction cost-benefit ratios are estimated at 1:5.
- The financial sector does not sufficiently account for these physical climate risks. This creates a “materiality gap” between the substantial economic impact of water-related risks (which are well documented and rising) and their financial materiality in the global financial system. Reasons for this gap include the lack of data, methodologies and consistent and standardised guidelines and regulations on how to identify, quantify and disclose these risks.
- These issues are topical for policy makers and financial institutions, warranting further investigation. For financial regulators, a challenge is that material financial risks may be “masked” by the current practices of the financial system. This would mean that if and when risks materialize, the financial sector may not be equipped to deal with them. Lack of awareness of risk is not equivalent to the absence of risk.
- The complexity and systemic nature of water-related risks generates challenges for measuring and addressing materiality. While guidelines, standards and regulation related to the net zero target have only one dimension – greenhouse gas emissions -- water and other environmental risks are far more complex and hence challenging to consistently cover in models and standards.
- Cost-benefit analysis fails to incorporate the value of benefits to people and well-being connected to risk reduction and adaptation investments. Thus, investments are disproportionately allocated to areas with the most costly infrastructure or value at risk, rather than the highest exposure or vulnerability. Underserved communities with high vulnerability should be targeted through investments that provide the most impact while strengthening communities’ resilience and adaptability.
- More work is needed to develop more granular scenario analysis which accounts for the interconnections of environmental impacts across sectors. Initiatives like the Task Force on Climate-



related Financial Disclosures (TCFD) and scenario analysis are good starting points to provide guidance and information.

Thursday 14 October (Day 4): Driving Progress, Measuring Impact

Fireside Chat: The Economics of Biodiversity - Why do ecosystem services matter?

- Ecosystem assets need to be framed as global public goods, and need to be integrated into current economic systems. The difficulties of integration that come with the complexities of ecosystems on an ecological, economic and political level have to be overcome. Otherwise, ecosystem degradation cannot be factored in measures of economic growth, nor reflected in market prices.
- The private sector should increase disclosure of ecosystem-related information, such as reliance on ecosystems in their supply chains, to facilitate a full integration of nature-related considerations into their decision-making. Governments urgently need to find a supra-national institutional arrangement whereby beneficiaries of the global public goods provided by certain ecosystems contribute to paying for them.

High-Level Plenary: Sustainable finance, climate and the SDGs: opportunities for impact

- To increase capital willing to take risks, like private equity funds, policies are needed to unlock early stage investment in infrastructure for emerging countries. While capital is abundant, the focus of investment as of yet is too often on debt capital markets.
- The global development community could usefully increase efforts to de-risk projects, including through blended finance and other innovative instruments. These instruments could be used by development institutions, including multilateral development banks and the donor community to support investments at higher-risk stages of investment.
- Efforts on standardisation of ESG data and disclosure metrics at international level could help streamline investment efforts aligned with climate and other policy objectives. Global effort on principles and guidance can help address the need for comparable, reliable and auditable data. While investors are looking to make SDG-linked investments, they are lacking the means to evaluate investment possibilities.

High-Level Plenary: Just report on emissions, or commit to Net Zero – what future for sovereign funds?

- The largest portion of sovereign wealth funds (SWFs) has yet to make strong commitments to reducing greenhouse gas emissions in their portfolios. While some SWFs are members of relevant initiatives, they mostly focus on reporting and risk rather than avoiding negative impact. Notably strong commitments may mean going beyond alignment with climate policy goals of a SWF's government.



- Challenges for developing climate-aligned portfolios include the absence of a definition of a realistic transition trajectory, of useful benchmarks against which to assess transition plans, and of clearly defined metrics of impact. These would be the ingredients for credible engagement processes.
- Standardisation of investment information and an underlying methodology could help avoid greenwashing. Such greenwashing can arise as a result of the principal-agent issue that persists in the relationship between asset managers and asset owners. As is the case for other investors, greenwashing could be an issue for SWFs and policy action such as efforts on standardisation and mandating the use of the standards is necessary to avoid it.



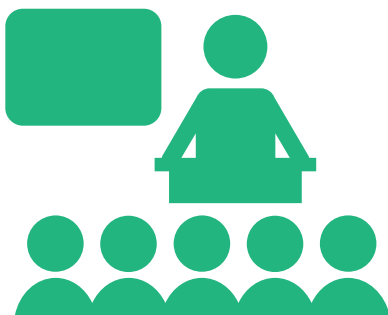
8th Forum on Green Finance and Investment: Key numbers



Participation

92 speakers

including senior policy makers
and key public and private actors



1036 participants

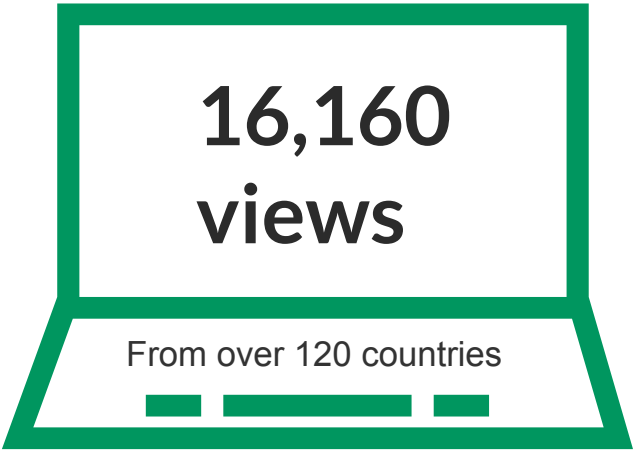
from 122 countries



17 sessions

on a range of key topics from transition finance and climate-alignment to green finance for developing countries, ESG investing, mobilising capital for clean energy as well as biodiversity.

Forum websites



Social media



Twitter:
34 #OECDgfi tweets
garnering 71,006 impressions



LinkedIn:
Multiple posts led to over 5,760 views

Participant categories

