FORUM ON GREEN FINANCE AND INVESTMENT 2023

2-3 October 2023 | Hybrid Conference
SUMMARY

Discussions during the 10th OECD Forum on Green Finance and Investment centred on the theme "Accelerating policy action to close the credibility gap". As in previous years, the 10th edition of the Forum brought together influential global actors to discuss key policy issues and solutions to advance the green and sustainable finance agenda. Sessions at the Forum considered how key stakeholders are responding to the urgent need to foster market integrity to scale up green and sustainable finance and deliver impactful solutions for global environmental and development objectives. Other key topics included acceleration of transition finance, the mobilisation of finance and investment for the energy transition in developing economies, the scaling-up of adaptation finance, and the integration of biodiversity-related financial risks[1]. Replays of the sessions are available here.

Monday 2 October (Day 1)

High-Level Plenary: Accelerating the climate transition of emission-intensive sectors

- Transition finance is needed to support economy-wide decarbonisation and the transition of high-emitting sectors while preventing and mitigating the risk of carbon lock-in. The new OECD report on Mechanisms to Prevent Carbon Lock-in in Transition Finance showcases good practices to support policy makers in developing comprehensive and credible transition finance policies. Carbon lock-in risks becoming a systemic issue if it is left unaddressed.

- Governments should provide greater policy certainty and coherence to help lower the cost of capital of green investments. It is important that taxonomies and relevant technical screening criteria contain clear safeguards to prevent carbon lock-in.

- Part of transition finance refers to phasing out emission-intensive assets and environmentally harmful activities. Companies should include project-level phase-out and retirement plans in transition plans.

- There is a need for greater inter-operability and convergence across countries on transition finance approaches. Participants called for the OECD to drive this convergence and leverage its

[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.

unique role to facilitate the reform of the international financial architecture to enable the transition to a sustainable economy.

- A systemic approach is necessary for transition finance at scale. Central banks, financial regulators and supervisors need to align their activities with transition plans. More attention should also be devoted to the mobilisation of sovereign bond issuances for the transition, as well as to the role of credit rating agencies.

How can we get the just transition right: From theory to implementation

- Strong institutional governance mechanisms at the international and national levels are key to achieve a just transition. This must be backed by robust transparency and accountability mechanisms for all stakeholders, both capital providers and receivers.

- The just transition necessitates the active involvement of all capital providers, with a key emphasis on ensuring access to affordable finance. The Sharm El Sheik Guidebook for Just Transition serves as a valuable resource in bridging the information divide and facilitating access to various streams of capital, including specialised capital funds.

- African governments are now bringing climate-related issues to the forefront of policy-making, but their domestic financial resources are limited. While climate finance has been trending upwards, it is far from sufficient to support the just climate transition of climate vulnerable regions. Greater advocacy for addressing Africa's financing needs is needed, recognising that barriers to mobilising climate finance differ across developing and emerging economies.

- Mobilising blended finance to address adaptation finance needs is critical. Adaptation is not just a response to environmental challenges; it is also an essential component of the growth agenda. For small businesses looking to expand, the uncertainty of having clients and reliable suppliers in the future is a significant concern. Attracting finance for climate adaptation requires robust, well-defined projects, often accompanied by technical assistance to make them feasible and attractive to investors.

The use of climate change mitigation scenarios for financial sector target setting, transition planning and alignment assessment

- Climate change mitigation scenarios are crucial to inform target setting, transition planning and Paris alignment assessments in the financial sector. However, inconsistent disclosure of ambitions, information gaps on underlying assumptions and related uncertainties, and limited sectoral and geographic granularity, are creating challenges for the use of these scenarios in the financial sector.

- The science is clear that alignment benchmarks should remain below the 1.5°C target with limited overshoot and reach net-zero GHG emissions. The recently published OECD paper on the Paris-consistency of scenarios and their use in the financial sector provides key guidance for selecting scenarios aligned with such a level of ambition. Scenarios should be selected consistently across activities, ensuring internal consistency with the global carbon budget. This requires more transparent information on the assumptions and data underlying these scenarios and the methodologies that use them.

- To improve the applicability of scenarios in the financial sector, scenario developers should support efforts to further enhance the scope and granularity of scenarios. Policy makers also play a key role by developing national sector-specific scenarios and data corresponding to clear granular national strategies. Bottom-up data and top-down approaches in the design of scenarios need to be further combined and can be complemented by further exploring non-emissions information in scenarios.

Is sustainable finance leaving SMEs behind?

- In aggregate, SMEs create a significant environmental footprint and are therefore critical for developing innovations to address the climate challenge. There can be no net zero without SMEs. However, investments to support SMEs' green transition require a stronger business case along with access to sustainable finance. They also require more certainty in regulatory frameworks.

- The impacts of reporting requirements will reach SMEs through financial institutions and supply chains. It is essential to minimise the burden for these enterprises and to build their capacity to measure and report on their sustainability performance, leveraging existing relationships.

- All actors in the SME sustainable finance ecosystem must be engaged for a successful transition, including public and private financial institutions, standard setters and regulators, accountants and ESG professionals, and SME representatives.

- The OECD Platform on Financing SMEs for Sustainability brings together many important actors in the sustainable finance ecosystem to share knowledge, accelerate the dissemination of good practices in sustainable finance for SMEs, and foster dialogue and convergence around the data sought by financial institutions from SMEs.

Financial sector net-zero commitments and metrics

- Robust net-zero commitments are conditioned on good-quality, comparable data and metrics. Key barriers include limited data availability for key metrics such as financed emissions, over-reliance on qualitative information rather than quantitative metrics and difficulty in aggregating data across asset, fund and financial system levels.

- Promising progress includes the United States' new Principles for Net-Zero Financing and Investment, relevant European Union frameworks and directives, Colombia's sustainable finance strategy, the Science Based Targets initiative and climate alignment work by the International Monetary Fund.

- Financial and climate policy makers need to work together to support the identification of a pertinent set of metrics that are credible from both a financial and environmental perspective, consider ways to address data gaps through better disclosure to support quantitative metrics that are decision useful, and encourage guidance to define or refer to specific, comparable and standardised methodologies to calculate such metrics.

Mobilising private capital for green hydrogen development in emerging and developing economies

- While the green hydrogen market is growing rapidly, public finance is scarce and insufficient to support green hydrogen projects. International financial institutions and Multilateral Development Banks play a key role in scaling up financing for green hydrogen. They need to align their efforts to mobilise private investors by providing blended finance and concessional finance.

- A multitude of risks continue to hamper the development of a sustainable green hydrogen market, including lack of certification mechanisms, off-take uncertainty, technology immaturity and absence of regulatory support. Financial institutions can help countries mitigate such risks by providing technical assistance, asset management and capacity-building, and promoting international dialogue among all stakeholders across the whole hydrogen value chain.

- The green hydrogen market calls for a systemic approach, including establishing multilateral collaborations between public financing institutions and private investors. Multilateral financing is key to scale up financing for green hydrogen projects, mitigate risks and create a robust and sustainable market.

High-Level Plenary: Mobilising finance and investment for clean energy in emerging and developing countries

- Mobilising private finance will be critical to meeting the investment needs of a Paris-aligned energy transition pathway. Yet, despite much attention paid to this issue in recent years, private finance flows towards emerging and developing economies remain far below what is needed. For investors, the risk-return proposition associated with investments in many emerging and developing economies is still not favourable.

- Blended finance can help to de-risk investments and markets. However, only relatively small volumes of public finance are available to de-risk investment, limiting the scale of blended finance. Moreover, fragmentation of the international development and climate finance architecture has resulted in unharmonised approaches that hamper the uptake of blended finance.

- Governments have ramped up efforts to strengthen common understanding of where and how blended finance could be used. Among others, the Global Blended Finance Alliance, launched under Indonesia’s G20 Presidency, aims to reduce transaction costs of replication and standardisation of blended finance. However, these and other such efforts need to be expanded so that de-risking is more widely and readily available to investors operating in frontier markets and sectors.

Tuesday 3 October (Day 2)

High-Level Plenary: Scaling up finance for adaptation and resilience

- Unprecedented climate-related extreme events are demonstrating the urgent need to scale-up investments in climate adaptation. Private investment will be a critical element of the efforts needed for adaptation, motivated by the recognition that investment strategies are vulnerable if they fail to consider adaptation and resilience.

- New business models are being developed to finance projects that deliver resilience benefits and unlock new investment opportunities. Current efforts have focused on developing projects that deliver multiple benefits and harness varied revenue streams, but transaction costs remain an issue and it is often hard to capture the "resilience dividend" due to misaligned policies.

- Governments have a key role in moving forward on this agenda to take examples of good practice and make them the norm. At the strategic level, there is a need for clear policy objectives, supported by efforts to achieve a conducive investment environment by increasing access to climate risk data, integrating adaptation into regulatory policies and ensuring that government spending is conducive to climate resilience. At the project level, blended finance and other innovative financing mechanisms have an important role to play in mobilising resources for climate adaptation projects.

Discussion on the Inclusive Forum on Carbon Mitigation Approaches (IFCMA)

- Climate mitigation policy settings are key to create favourable conditions for green finance and investment. The OECD Inclusive Forum on Carbon Mitigation Approaches (IFCMA) can offer important insights into how policies are, or can be, designed to attract the levels of green finance and investment needed to accelerate progress.

- The IFCMA offers a platform for better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue to help navigate diverse climate change mitigation policies and inform policy reform.

- Peer-learning discussions could focus on the design of novel policies such as green hydrogen subsidies and/or credits, and serve as a platform to discuss easier financing of such subsidies (e.g. through streamlining credit evaluations by debtors). It could also discuss overall impacts of policies on society (e.g. socio-economic effects of carbon pricing design).

Towards better management of systemic social and inequality-related risks and impacts

- Increases in inequalities of income and wealth, the rise of social unrest, and growing market concentration suggest that investors and financial institutions have strong incentives to address the systemic risks associated with inequalities and other social issues. Business and finance also have concrete levers to influence the accumulation of inequalities. This requires considering both the impact of corporations but also the incentives established by asset owners at higher levels in the capital market's value chain.

- The establishment of a Taskforce on Inequality and Social-related Financial Disclosures (TISFD) can serve as a tool to help investors and financial institutions manage inequality- and social-related risks and impacts by strengthening inequality- and social-related disclosures. This would enable investors to contribute to managing inequalities, including by increasing efforts towards pre-distribution, which involves addressing inequalities before they emerge, thus reducing the necessity for subsequent re-distribution.

- Such a Taskforce may also help expand the evidence base on inequality as a systemic risk and educate investors on how inequality and social risks manifest into systemic risks, thereby encouraging action. While some of the evidence of the presence of systemic risks is already available, there remains an opportunity to further strengthen the business case.

To what extent can voluntary carbon markets contribute to net-zero targets?

- While mandatory carbon markets continue to be the stronger carbon pricing approach, voluntary carbon markets can play an important complementary role to support corporations' net-zero journey.

- Voluntary carbon markets have grown significantly, but they are still under development and remain small compared to the compliance carbon markets, such as the EU Emissions Trading System (ETS). To support their rapid growth in scale and address concerns about environmental integrity, it is necessary to improve practices with regards to additionality and transparency.

- Rigorous data to benchmark carbon credit-generating activities in voluntary carbon markets, in addition to appropriate regulatory frameworks for credits trading, could support continued improvements towards high-integrity voluntary carbon markets.

From portfolio to real economy: using Responsible Business Conduct due diligence as a tool for engagement

- To effectively manage portfolio risk and streamline engagement efforts, it is imperative to adopt systemic stewardship approaches. These approaches should be complemented by well-defined guidelines and metrics, enabling individual investors to engage with portfolio companies. It is also essential to foster greater awareness and recognition of the shared benefits of communicating quantifiable engagement expectations alongside a transparent timeline and escalation framework.

- Different aspects of the sustainability crisis are interlinked. The close connection between people, nature and climate must be considered to ensure policy credibility and provide sustainable value to shareholders over time.

- There is a need for clear and science-based corporate transition plans to match institutional investors' decarbonisation targets and support commitment and ambition with implementation.

Aligning investment treaties with the Paris Agreement

- Investment Treaties provide an insurance-type financial service, with identified risks and financial payments upon occurrence of a risk. The investment treaty regime has been a blind spot in the legal infrastructure for climate and finance flows, exposing governments to costly investor-state dispute settlement (ISDS) compensation claims as they align policies with the Paris Agreement.

- If investment treaties remain in force in their current state, new investments in coal and other fossil fuels, ranging from USD 60 to USD 230 billion, could materialise under the conditions outlined in these treaties.

- Existing and ongoing work on finance and climate should be used as inspiration and leveraged to prompt and inform new work on the alignment of investment treaties with the Paris Agreement.

Assessing water-related risks and impacts

- A significant "materiality gap" persists between the well-documented and escalating economic impact of water-related risks and financial actors' understanding of their financial significance within the global financial system. Greater awareness regarding water-related risks is needed within the financial community. This is currently prevented by limited resources, inadequate data on transmission channels to the economy and financial system, and a lack of regulatory measures.

- Encouragingly, there are commendable initiatives within the finance community that warrant expansion. Notable examples include BBVA's Water Footprint Loan, which offers reduced interest rates to companies that decrease their water consumption, as well as the CDP questionnaire on water-related risks, Moody's credit risk assessments and AXA's efforts in insurance.

- A combination of strategies can be considered to help bridge the materiality gap. These include strengthening regulation, developing central bank stress tests specifically on water risks, bridging data gaps and improving assessments to better inform investors on water-related risks to improve capital allocation. Greater attention to and recognition of investment opportunities in water-related issues are also essential to support the business case and mobilise investment.

High-Level Plenary: Assessing biodiversity-related financial risks: the role of central banks and other financial actors

- Nature-related risks are economic and financial risks that must be integrated into financial valuations. Due to the complexity of nature, we need to increase our analytical capacities to adequately assess and act on these risks. The urgency and scale of the potential risks stemming from nature degradation require us to overcome our reluctance to launch into necessarily imperfect approaches and to implement a 'learning-by-doing' approach.

- Central banks also have a key role to play in assessing and monitoring the potential macroprudential risks to the financial sector stemming from nature loss. The OECD supervisory framework helps central banks and financial supervisors assess biodiversity-related financial risks, impacts and dependencies in the financial sector.

- A greater understanding and recognition of the linkages between nature and climate is needed. For example, peatlands cover just 3% of the world, but store twice the amount of carbon than all the forests in the world. A climate transition plan is only credible if it is nature-positive too, but transition planning is yet to be implemented for nature. The Global Biodiversity Framework (GBF) offers global targets for nature and can be used as the basis for nature transition plans.

- Less than 1% of water is usable for human consumption, and by 2050 demand is expected to increase by 55%. Not only will demand increase, but supply and the reliability of supply will change. Nature and water are mutually dependent and financial institutions need to understand and include these linkages within their risk assessments of nature-related financial risks.

CENTRE ON GREEN FINANCE AND INVESTMENT

OECD

2-3 October 2023

10th Forum on Green Finance and Investment: Key Numbers

Participation

70+ speakers

including leading global actors in the financial industry, policymaking, academia and civil society.

1400+ participants

Both in-person and virtual participants from **100 countries.**

15+ sessions

on a wide range of pressing green and sustainable finance issues, ranging from the acceleration of transition finance, the mobilisation of finance and investment for the energy transition in developing economies, the scale-up of adaptation finance, to the integration of biodiversity-related financial risks.

Social Media

Twitter/X:
#OECDgfi posts **gaining 26,050 impressions**

LinkedIn:
Multiple posts led to over **19,580 views**

Email Outreach

Mailouts to **4,500+ key contacts**

x6 messages to IISD lists (Climate, Energy, Biodiversity, Water, SDGs)

Actions to Promote 2023 Forum Sponsors

The sponsor logos were featured on:

- The homepage of the event platform
- A dedicated page on each of the sponsors
- Communications and social media pack
- A dedicated sponsors page
- In the Forum draft agenda and mailouts to registered participants
- Promoted on dedicated twitter posts
- The ENV newsletter sent out on 11 & 28 September

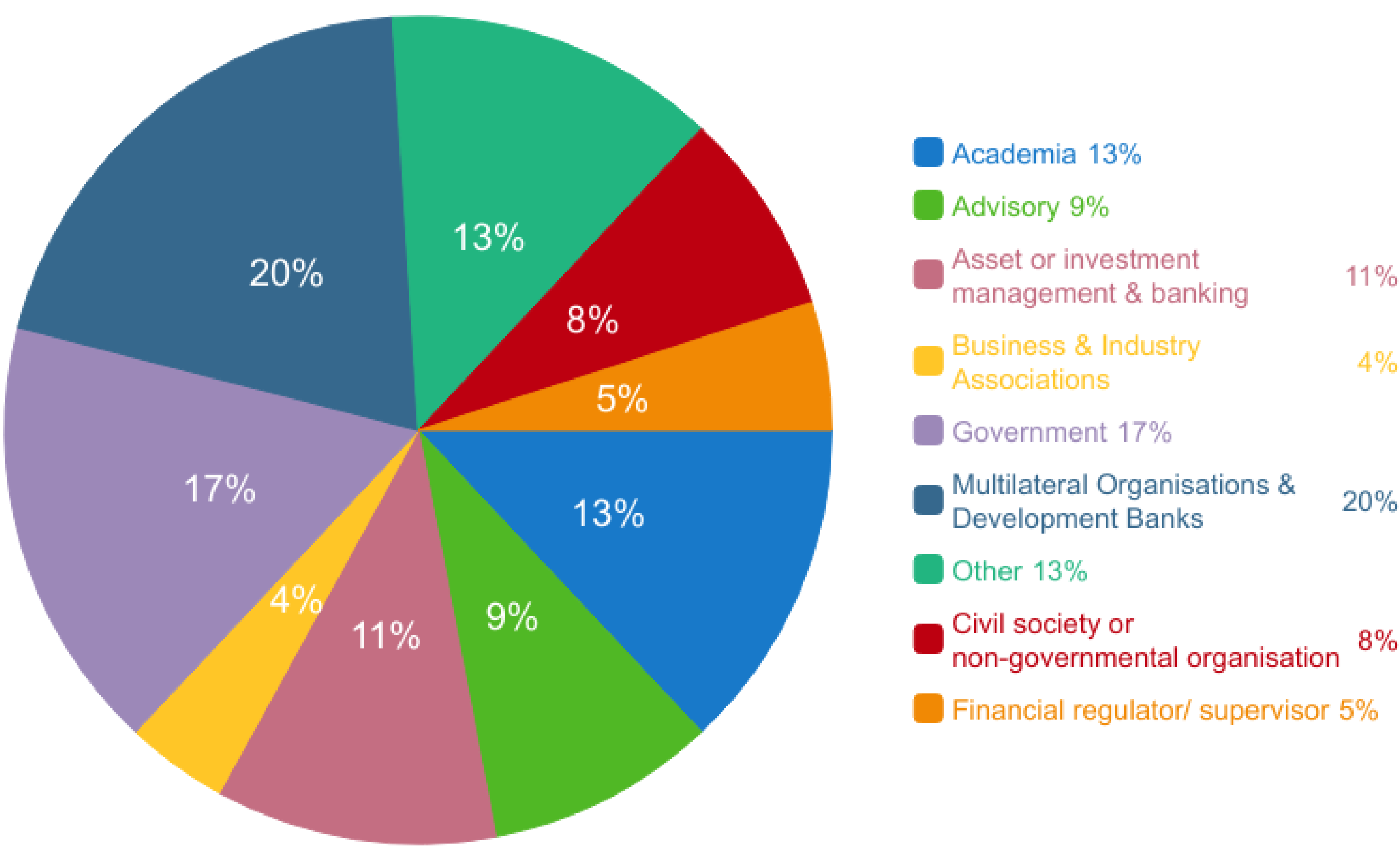
Sponsorship acknowledgement with logos included in opening slide at the start of Forum sessions

Forum Websites

OECD Forum Newsletters

x2 sent to **47,282+ OECD Environment Newsletter subscribers**

Participant Categories



Insights from Participants

98% of participants would like to attend the 11th edition of the Forum, and 97% would highly recommend to others.

High level of speakers both in terms of knowledge and role.

Frank discussions on important topics.

Everything was absolutely wonderful!

A focus on real life solutions.

Amazing speakers giving the latest state-of-play.

A great space for exchanging realistic opinions.

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