INTERNATIONAL CONGRESS ON CLIMATE CHANGE AND FISHERIES

SESSION IV: FUNDING, ACTIONS AND POLICIES TO RESPOND TO CLIMATE CHANGE

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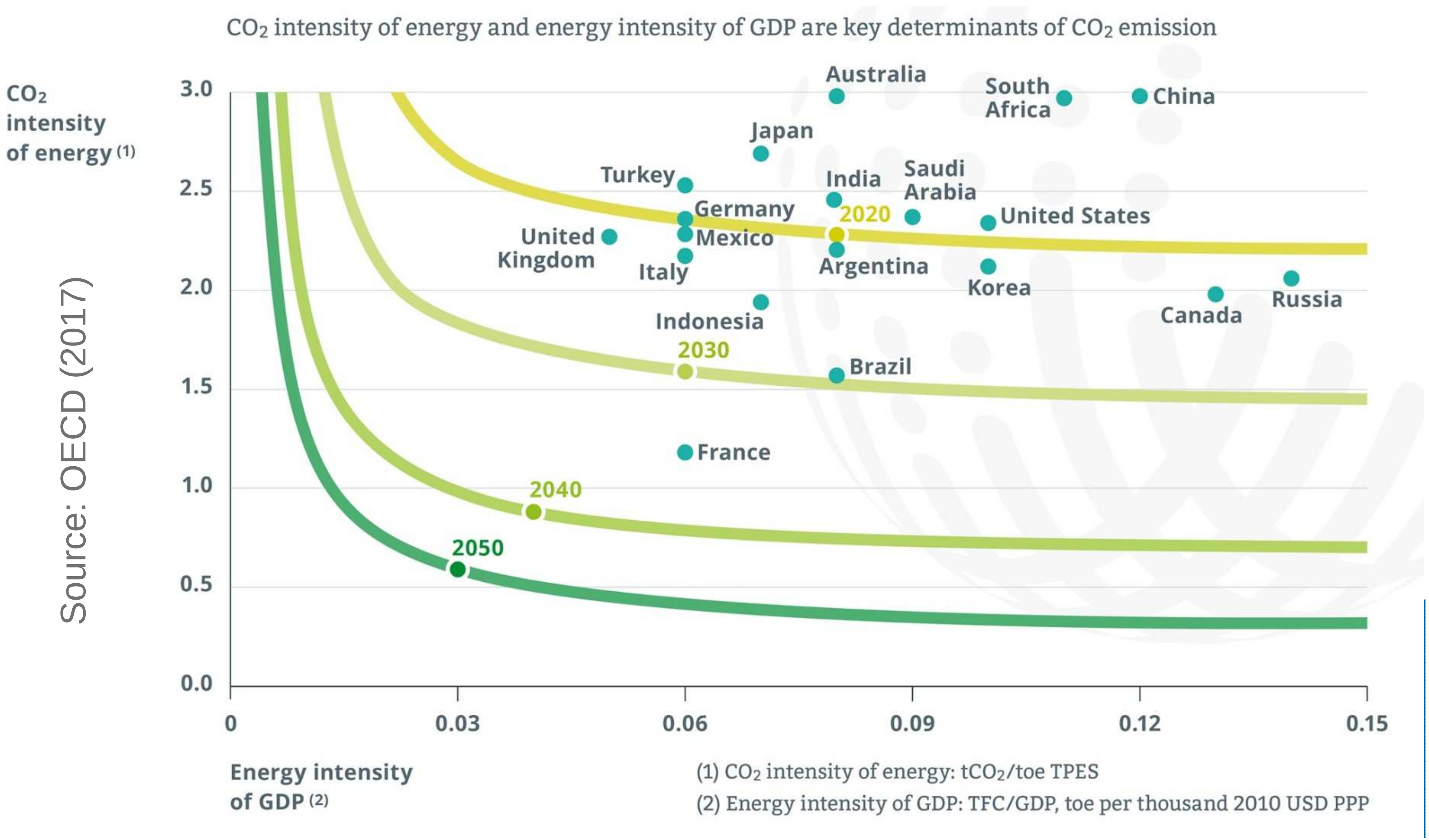
OECD
BETTER POLICIES FOR BETTER LIVES

What I aim to cover...

- **Paris Agreement**
  - Mitigation pathways and infrastructure needs
  - Climate Finance ... and making finance flows consistent with low-emissions, climate-resilient development pathways
- Insights from OECD and other work work on **green finance**

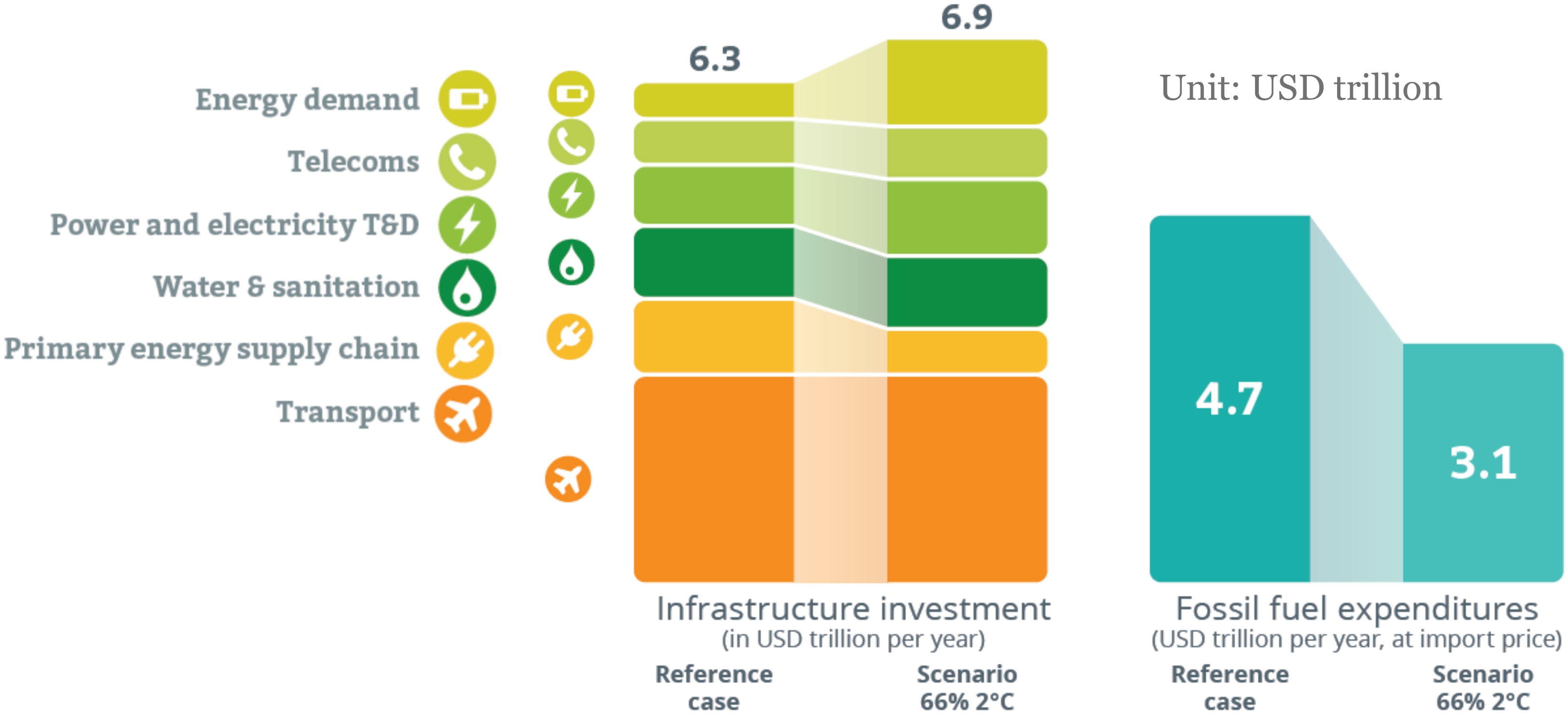
Countries face different challenges in forging low-emissions pathways



Source: OECD (2017)

Significant redirection of investment is needed for a low-carbon transition

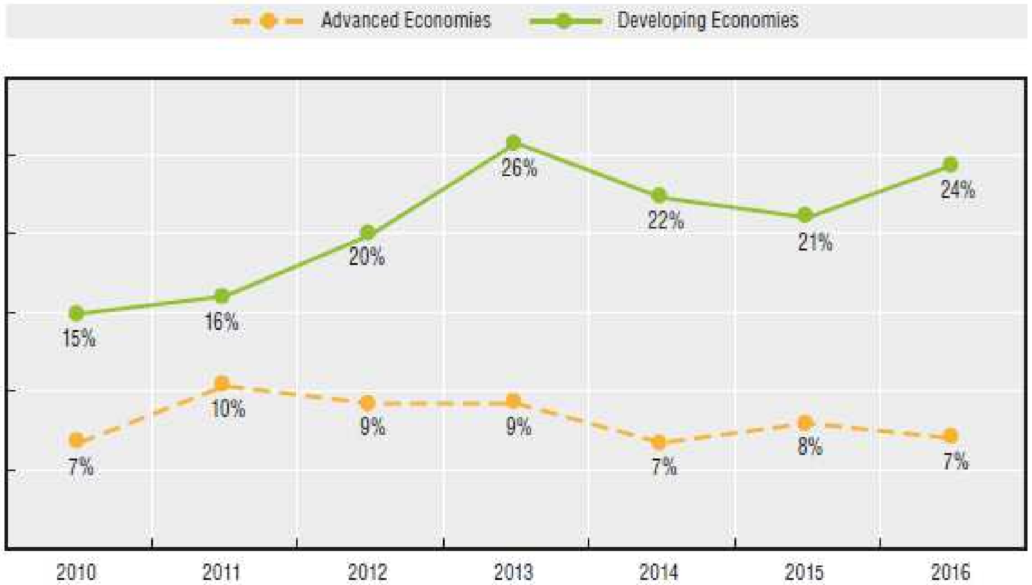
- ✓ **To make infrastructure climate-compatible, $6.9tn/year investment is needed 2016-30 on average**
- ✓ **Incremental costs around 10% relative to refernce**
- ✓ **However, significant upfront capital is needed**



Source: OECD (2017) *Investing in Climate, Investing in Growth*

Role of public financial institutions for mobilising private capital

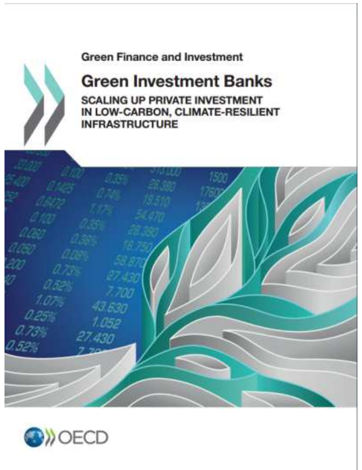
Share of development banks and state-owned banks in privately financed infrastructure, power and transport sectors



Source: OECD (2017) *Investing in Climate, Investing in Growth*

Public financial institutions

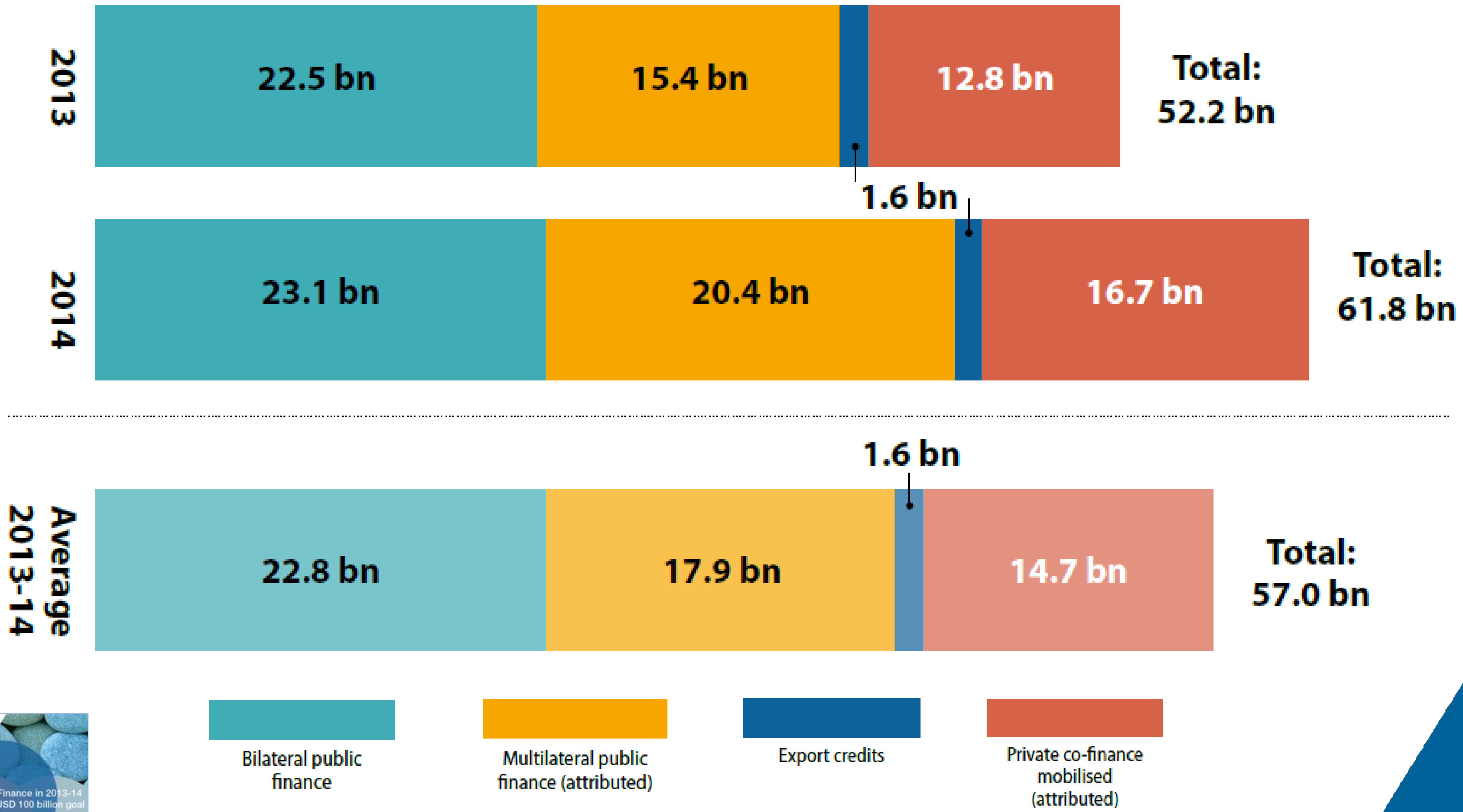
- Multilateral Development Banks (MDBs)
- Bilateral Development Finance Institutions (DFIs)
- National Development Banks (NDBs)
- Green Investment Banks



Tools to mobilise private capital

- ✓ Guarantees
- ✓ Debt subordination
- ✓ Co-finance/Co-investment
- ✓ Technical assistance

Climate finance provided and mobilised by developed countries for climate action in developing countries (USD billion) in 2013-14



Source: OECD (2015), "Climate finance in 2013-14 and the USD 100 billion goal", a report by the Organisation for Economic Co-operation and Development (OECD) in collaboration with Climate Policy Initiative (CPI). http://www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.htm

2020 projections based on public pledges: a range of potential outcomes

With **P= 67bn**

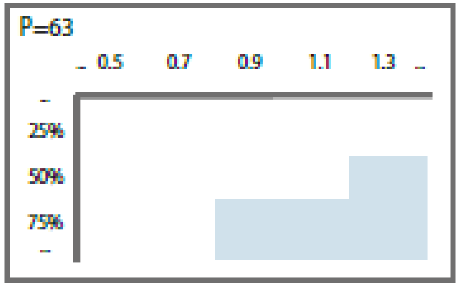
B — Private-public finance ratio for projects with a direct mobilisation potential

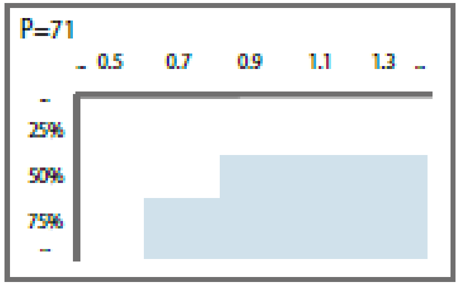
A — Share of projects with direct mobilisation potential

Share of projects with direct mobilisation potential	... 0.5	0.7	0.9	1.1	1.3 ...
...					
25%	77	80	83	87	90
50%	85	92	98	105	112
75%	93	103	113	123	133
...					

- **Red** Below projected outcome based on average private-public ratios observed in 2013 and 2014.
- **Yellow** Positions consistent with the projected outcome based on average private-public ratios observed in 2013 and 2014.
- **Green** Above projected outcome based on average private-public ratios observed in 2013 and 2014.
- (shaded) Total climate finance amount higher than 100.

Illustrative variations in level of P





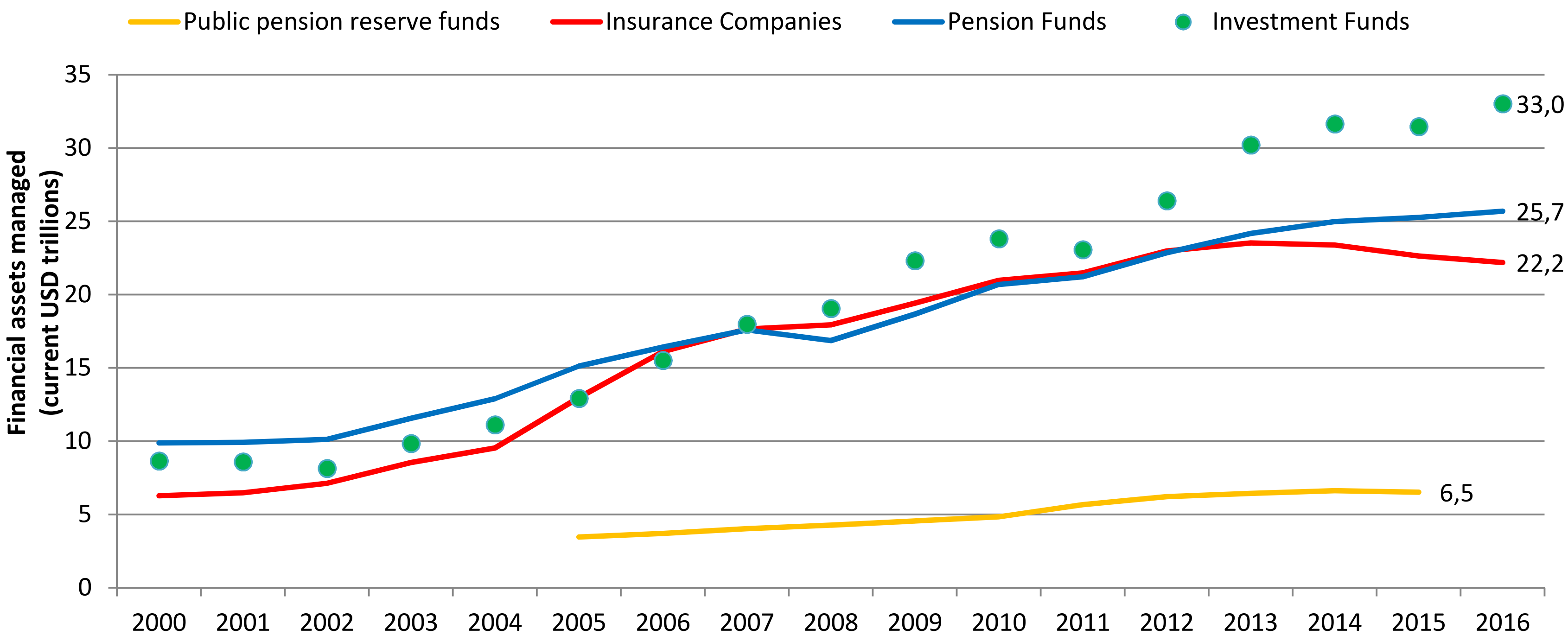
Source: OECD (2016), 2020 projections of Climate Finance towards the USD 100 billion goal: Technical Note, OECD Publishing, http://www.oecd.org/environment/cc/oecd-climate-finance-projection.htm

Scaling up climate finance: some issues

- Scale of overall MDB finance
  - Concessional, non-concessional & diversity of MDBs
  - Strength of balance sheets & capital market borrowing
- Composition of portfolio
  - Project funding vs. longer term action
  - Balance of mitigation projects vs. adaptation
  - Financial instruments to mobilise private climate finance
- How can we best use the USD 100 billion a year to create the conditions for the trillions?

Mobilising the trillions

OECD institutional investors alone manage ~$54 tn, but…



Only 1% of large OECD pension fund assets invested directly in infrastructure *
And only a fraction of that 1% invested in green infrastructure **

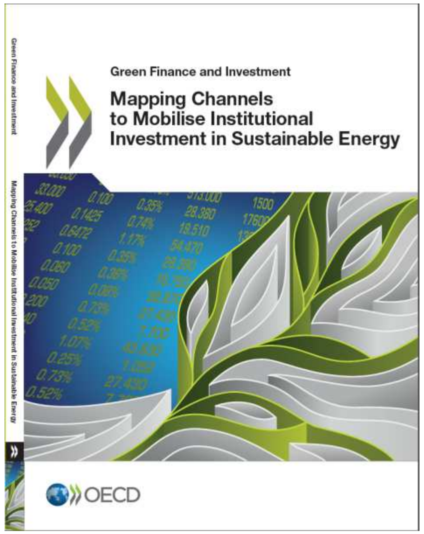
Source: OECD Global Pension Statistics, Global Insurance Statistics and Institutional Investors databases, and OECD staff estimates. (1) Public Pension Reserve Funds, (2) Other forms of institutional savings
** 2015, direct unlisted equity investment by large OECD pension funds, covering $10+tn*
** * BNEF estimates*

Mapping Channels to Mobilise Institutional Investment in Sustainable Energy: an OECD report

(annexed to G20 Communique in 2015; Progress Report submitted to G20 GFSG in 2016)

Barriers to investment

- Lack of investment environment
- Weak or uncertain energy and climate policies
- Regulatory policies with unintended consequences
- Lack of suitable financial vehicles
- Shortage of information on bankable projects



Key policy recommendations

- ✓ Establish **pre-conditions** for institutional investment
- ✓ Ensure a stable "investment grade" policy environment
- ✓ Address market failures (incl. lack of **carbon pricing** & **remove fossil fuel subsidies**)
- ✓ Provide a national **infrastructure road map & pipeline**
- ✓ Facilitate the development of liquid financing instruments (e.g. **green bonds**)
- ✓ Facilitate the development of **risk mitigants**
- ✓ Reduce the **transaction costs** of green investment (e.g. aggregation and "warehousing")
- ✓ Promote market transparency, **disclosure**, standardisation and improve **data availability**
- ✓ Establish a "**green investment bank**" or refocus existing public financial institutions

Source: OECD, 2015: http://dx.doi.org/10.1787/9789264224582-en

Development of the green bond market

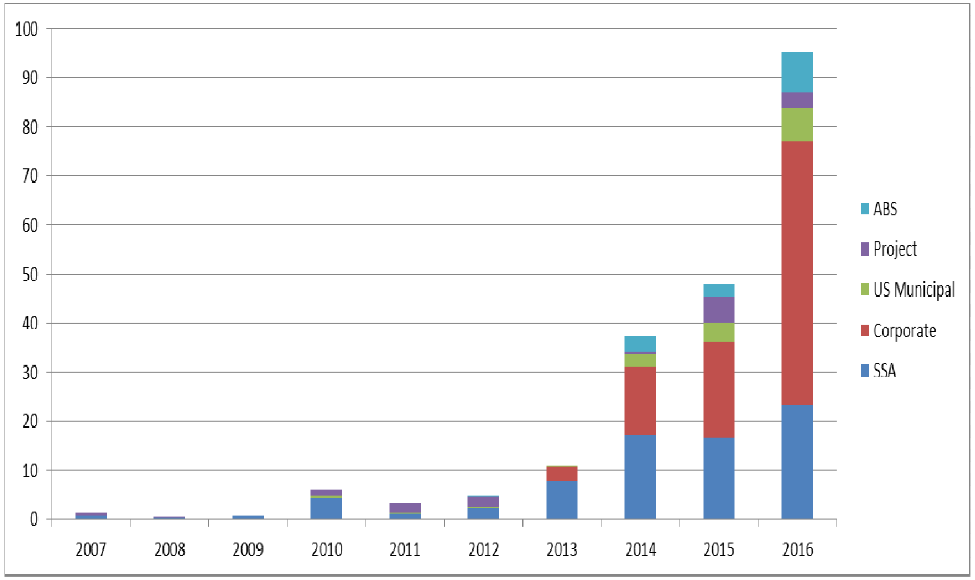
Issuers:

- ✓ Investor base diversification (more funding source, lower volatility
- ✓ Enhanced credibility of environmental strategy
- ✓ Lower cost of capital?

Investors:

- ✓ Satisfies SRI/ESG demand without sacrificing return
- ✓ Enhanced information about issuer
- ✓ Hedging climate risk in low carbon scenario

Annual issuance of green bonds (USD billion)



Source: SEB analysis provided to OECD, based on Bloomberg data

Some recent developments

- *Diversification of players / countries*
- *International and country-specific guidelines*
- *Emergence of "sovereign" green bonds*
- *Standards?*

International actions:
Financial Stability Board established Task Force on Climate-related Financial Disclosures (TCFD)

Dec 2015: **FSB established TCFD**

Mar 2016: **Phase I Report**

Dec 2016: **Recommendation Report**

Jun 2017: **Final Report**

Key features of recommendations
- Adoptable by **all organisations**
- Disclosure in **mainstream financial filings**
- Designed to solicit **decision-useful, forward-looking information** on financial impacts
- Strong focus on **risks and opportunities** related to transition to low-emissions economy

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: TCFD "*Overview of Recommendations*" (June 2017)

Centre on Green Finance and Investment & Green Investment Financing Forum

GREEN INVESTMENT FINANCING FORUM 2017

24-25 October 2017–Paris, France

CENTRE ON GREEN FINANCE AND INVESTMENT

- The main annual global event for the OECD Centre on Green Finance and Investment
- Gathers senior policy makers and key actors in green finance and investment from around the world
- Expecting 300+ participants and 50+ high profile speakers

Centre Webpage

http://www.oecd.org/cgfi

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Forum Registration

http://www.oecd.org/cgfi/2017-green-investment-financing-forum.htm