An aerial photograph showing a coastal town with a peninsula in the foreground, surrounded by a blue sea. In the background, a hillside is dotted with several white wind turbines. The image is partially obscured by a dark grey curved shape on the right side of the slide.

Sustainable finance, pandemic & climate transition

Dr Stephen Minas

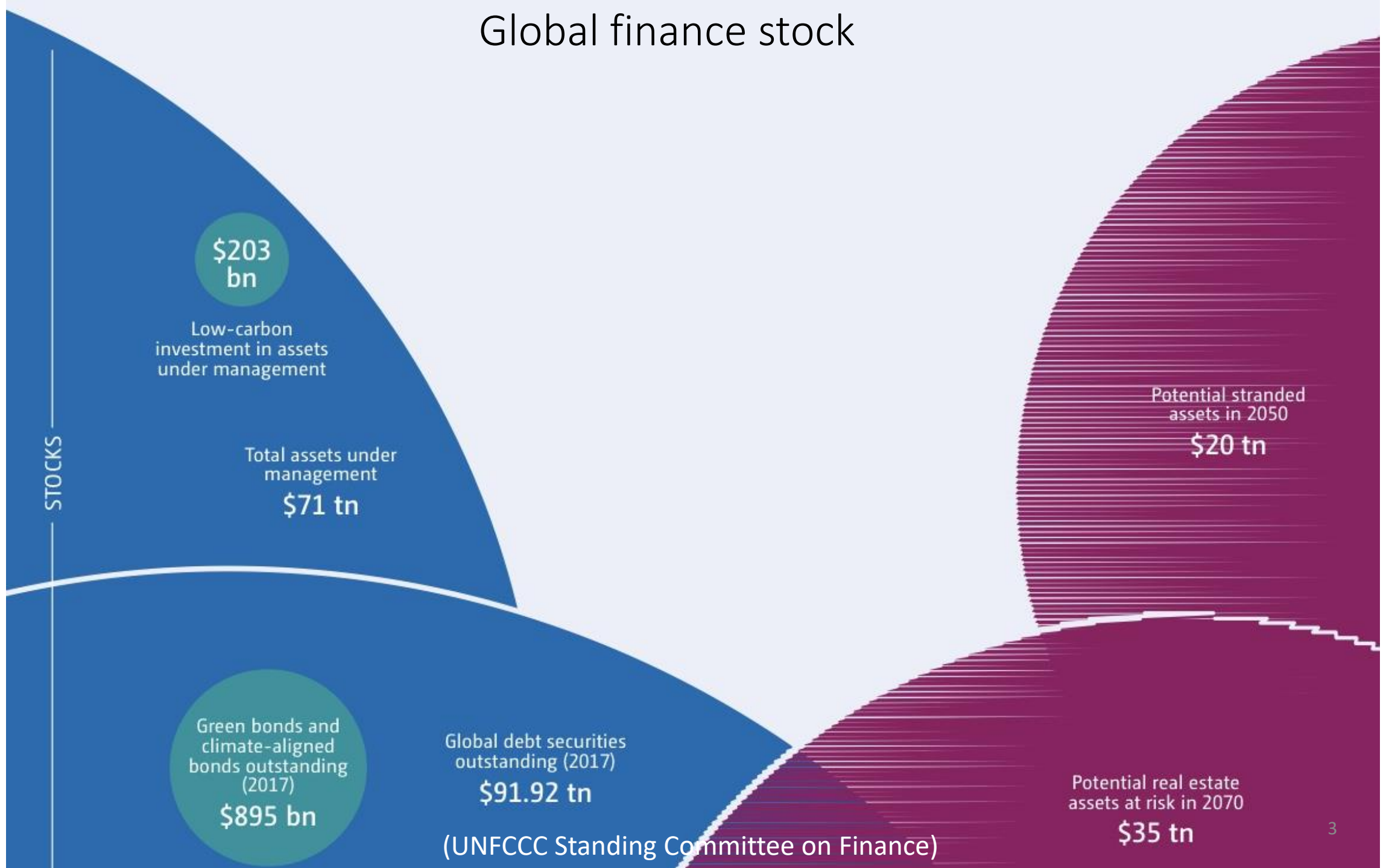
Energy Community Eternal Summer School

25/02/21

Webinar overview

- Challenge of financial transition
- Paris Agreement
- EU and other key players
- Market standards
- Pandemic impact
- State of play, early 2021
- Implications for Contracting Parties

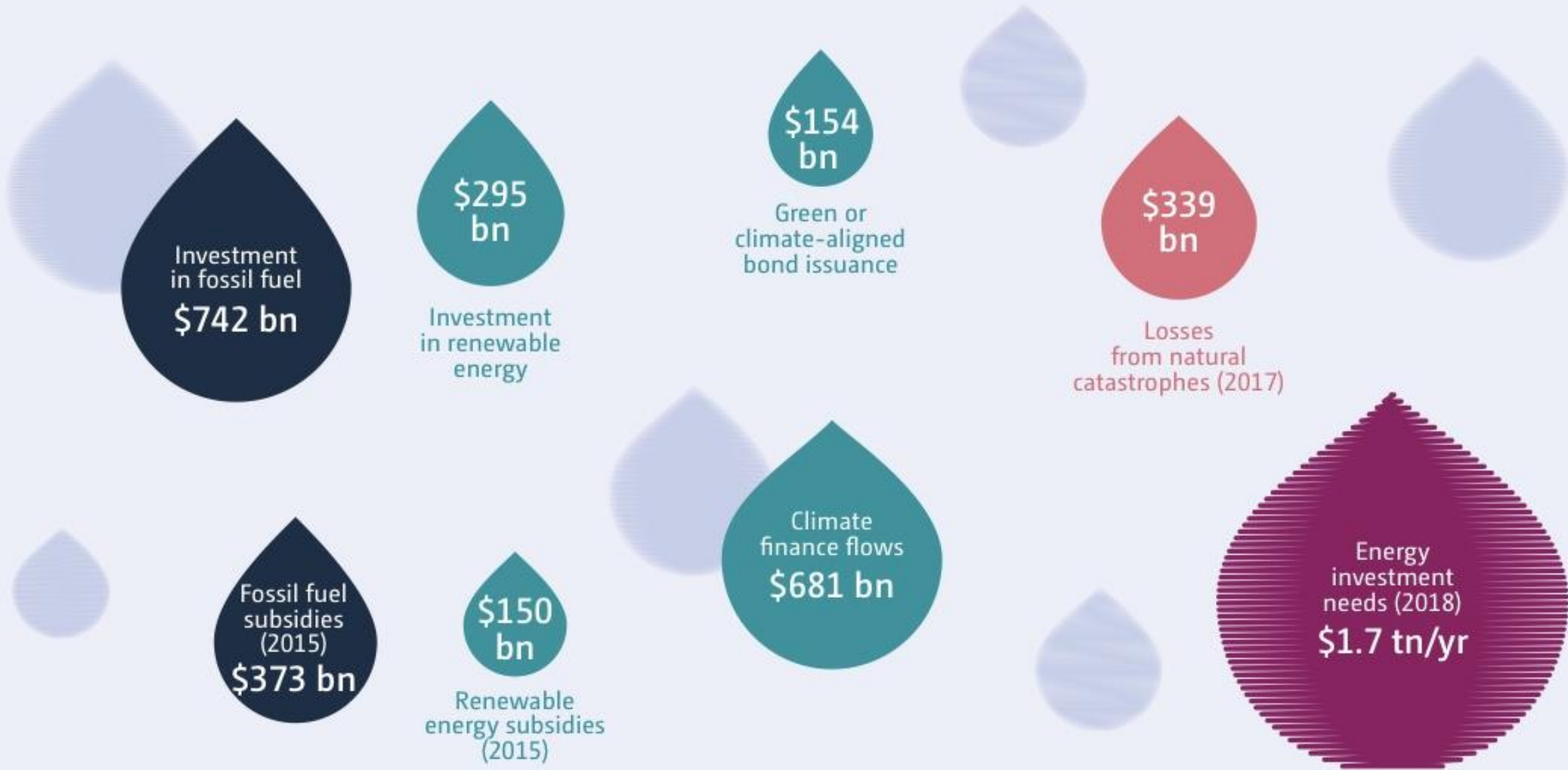
Global finance stock



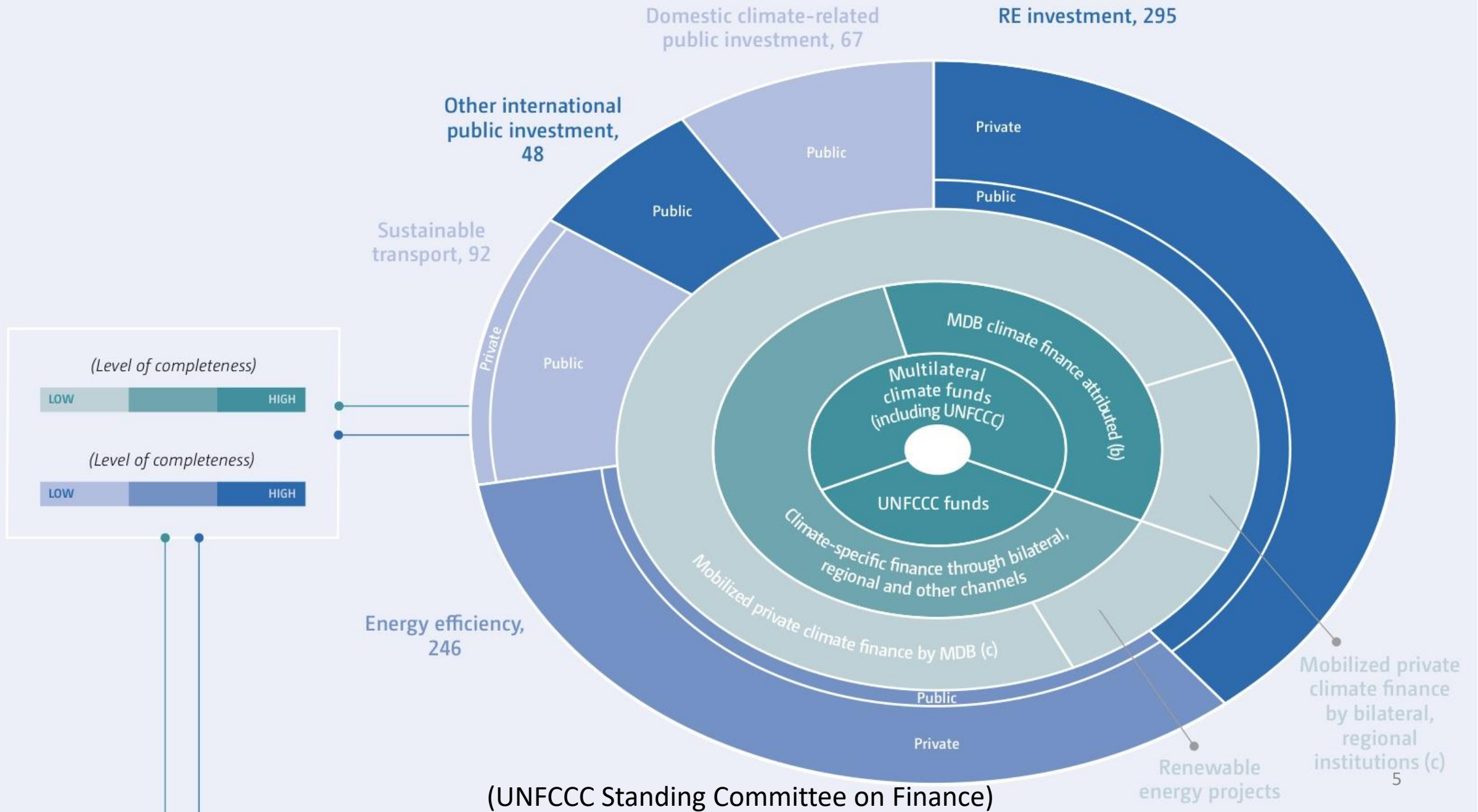
(UNFCCC Standing Committee on Finance)

Global finance flows

FLAWS



Climate finance flows in the period 2015–2016 (Billions of United States dollars, annualized)



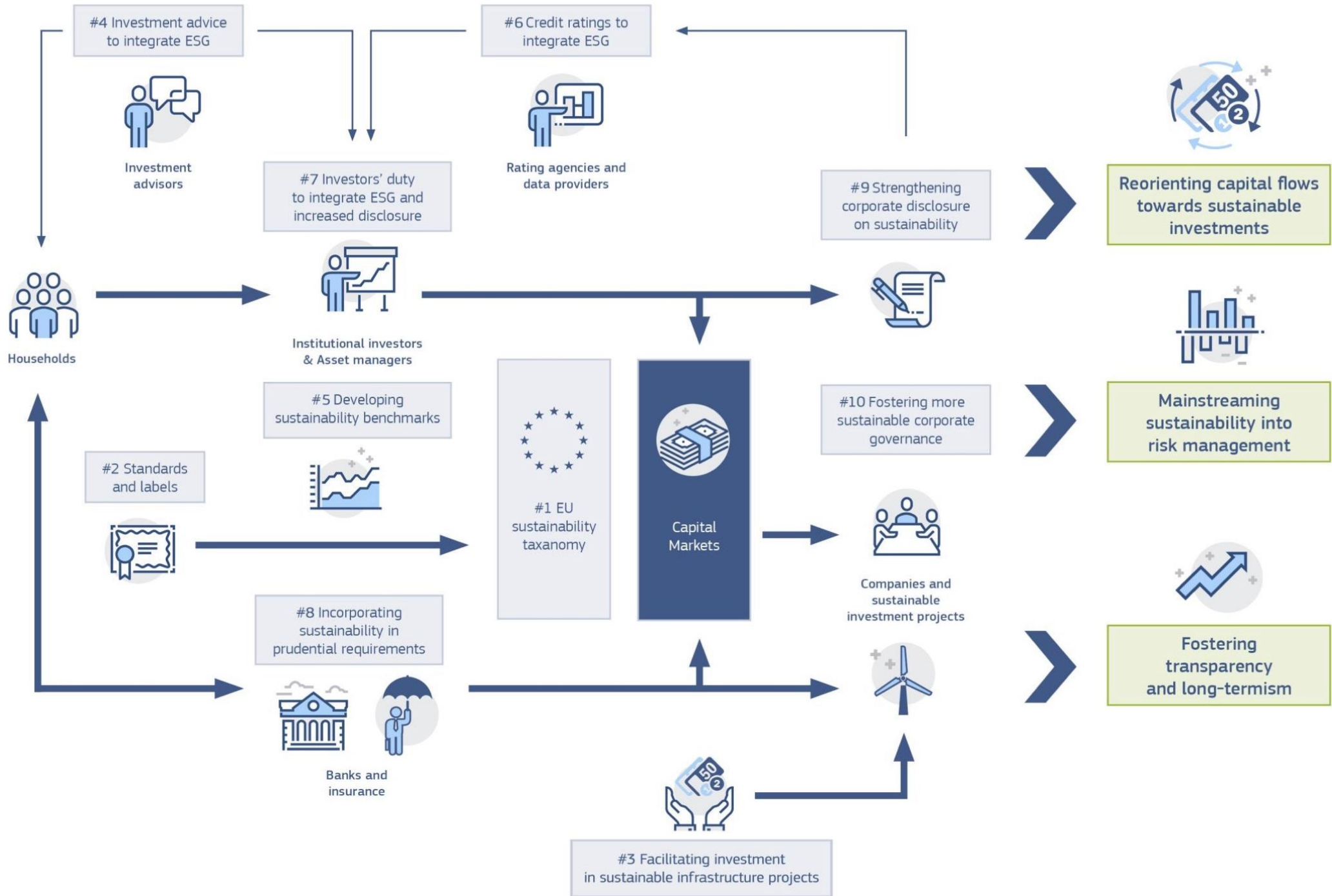
Paris Agreement

- Article 2.1: This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:
 - (a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
 - (b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;
 - ***(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.***

European Green Deal & Sustainable Finance Framework

- Revised 2030 targets
- 2050 target
- Sustainable finance framework
- European Green Deal
 - EGD Investment Plan
 - Just Transition Mechanism
- Economic & Investment Plan for the Western Balkans
- Green Agenda for the Western Balkans





Taxonomy for sustainable activities

- Taxonomy Regulation (2020):
- Environmental objectives:
 - Climate mitigation, adaptation, etc.
- ‘criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable’ - Whether activity :
 - ‘contributes substantially’ to environmental objectives
 - ‘does not significantly harm’ environmental objectives
 - Meets minimum social safeguards & technical screening criteria
- “**Member States and the Union** shall apply the criteria ... to determine whether an economic activity qualifies as environmentally sustainable for the purposes of any measure setting out requirements for financial market participants or issuers in respect of financial products or corporate bonds that are made available as environmentally sustainable.”
- Applies to transparency pre-contractual disclosures & periodic reporting re:
 - ‘environmentally sustainable investments’
 - ‘financial products that promote environmental characteristics’
- Transparency of undertakings in non-financial statements.
- ‘Substantial contribution to mitigation’ includes:
 - RES, EE, energy infrastructure decarbonization, etc
- Delegated Act on climate objectives:
 - Draft released Nov 2020
 - CION currently finalising
- Mitigation & adaptation criteria to apply from Jan 2022

E.g. Electricity generation using solar photovoltaic technology

- Description of the activity:
 - Construction or operation of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology.
- Substantial contribution to climate change mitigation:
 - The activity generates electricity using solar PV technology.
- Do no significant harm:
 - The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.
 - EIA completed according to EU Directive or, in 3rd countries, equivalent national rules.
 - Etc
 - (DRAFT delegated act, annex)



Sustainability-related disclosure

- Regulation on sustainability-related disclosures in the financial services sector (Nov 2019):
- Financial market participants & financial advisers 'shall' publish info on 'policies on the integration of sustainability risks' in investment decision-making or investment/insurance advice.
- Provides for:
 - Transparency of adverse sustainability impacts of investment decisions
 - Pre-contractual disclosure of how sustainability risks integrated into investment decisions
 - 'Where a financial product promotes ... environmental or social characteristics', info on how product meets these characteristics
 - Etc
- Applies from 10/03/21

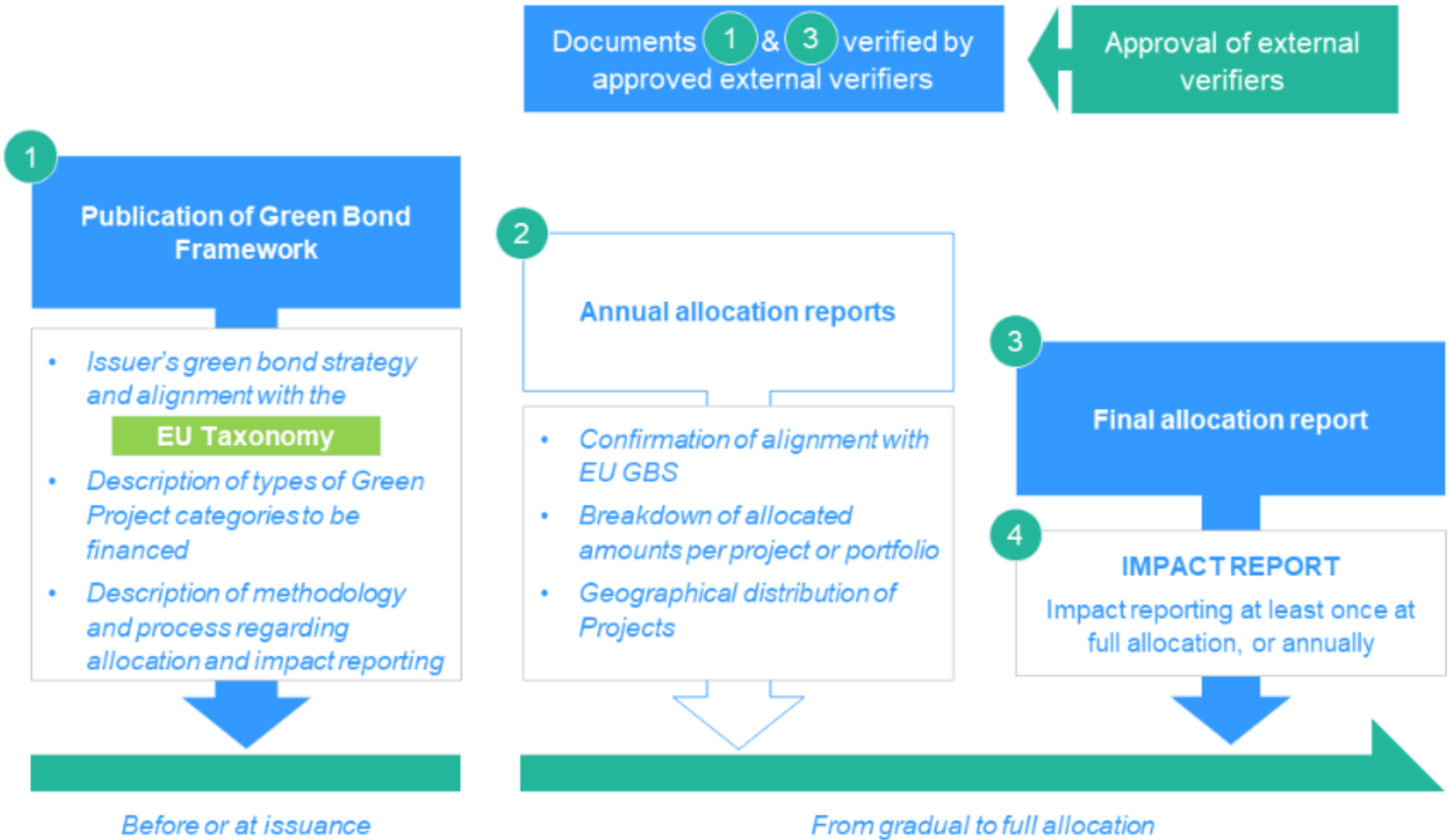


EU climate benchmarks

- Benchmarks:
 - S&P 500, MSCI indices, EURIBOR etc
- Proliferation of low-carbon indices
- Climate benchmarks regulation (Nov 2019):
- Aim: Provide consistency, combat 'greenwashing'
- 2 new benchmarks:
 - "EU Climate Transition Benchmark": underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio is on a decarbonisation trajectory
 - "EU Paris-aligned Benchmark": underlying assets are selected, weighted or excluded in such a manner that the resulting benchmark portfolio's carbon emissions are aligned with the objectives of the Paris Agreement
- Sovereign debt currently excluded from benchmarks:
 - "currently not enough data to assess the carbon footprint resulting from decisions made by sovereign entities."

EU Green Bond Standard

- TEG recommendations (June 2019):
 - Create a *voluntary* EU Green Bond Standard.
 - The EU-GBS should comprise four core components: (1) alignment of Green Projects with the EU Taxonomy, (2) Green Bond Framework, (3) reporting and (4) verification by accredited verifiers.
- EGD Investment Plan (Jan 2020):
 - CION will establish an EU Green Bond Standard.



China: Establishing a “Green Financial System”

- Guidelines:
- Vigorously Develop Green Lending (Policy framework, green credit policy system, promote banking ‘self-regulation’ and securitization of green loans, ‘introduce lenders’ environmental legal liability’, etc)
- Enhance the Role of the Securities Market in Supporting Green Investment (unify green bond definitions, use local government guarantees to reduce financing costs of green bonds, support IPOs of ‘qualified green enterprises’, etc)
- Launch Green Development Funds and Mobilize Social Capital through PPPs
- Develop Green Insurance
- Improve Environmental Rights Trading Market and Develop Related Financing Instruments
- Support Local Government Initiatives to Develop Green Finance
- Promote International Cooperation in Green Finance
- Prevent Financial Risks and Strengthen Implementation

Towards a 'green' Belt & Road Initiative?

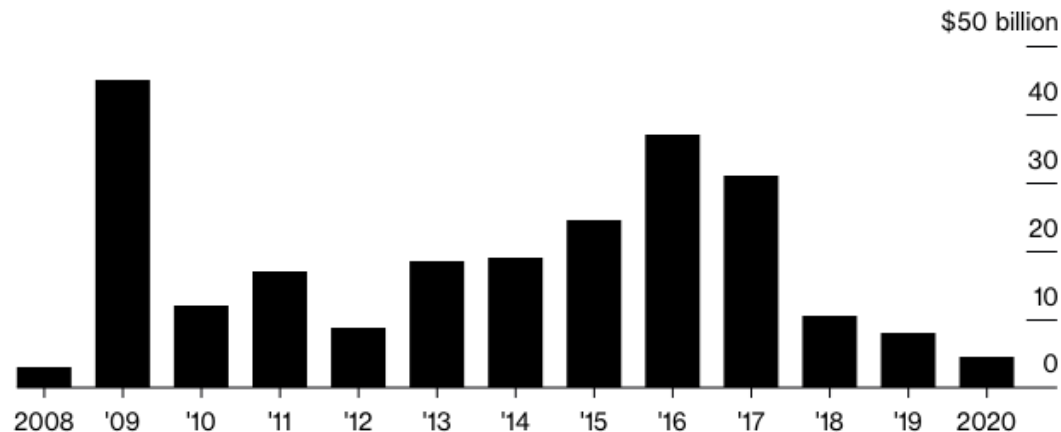
- 2020: 1st year with more BRI renewable financing than fossil fuel financing
- 'Green BRI' projects
- Impact of China's 2060 carbon neutrality goal?

COUNTRY	AMOUNT	DESCRIPTION
Nigeria	\$2.5 billion	Gas pipeline project
Ivory Coast	\$286 million	Gribo-Popoli hydropower project
Rwanda	\$214 million	Nyabarongo II hydropower project
Lesotho	\$70 million	Solar PV power plant
Bangladesh	\$970 million	Power grid strengthening project
Pakistan	\$260 million	Thar 330MW coal-fired power project
Serbia	\$214 million	New Belgrade district heating system
Cambodia	\$80 million	Rural power grid extension project

(Bloomberg)

Downhill

China's overseas energy financing drops to the lowest since 2008



Source: Boston University Global Development Policy Center

Transnational developments

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

- Greater disclosure
- More standards
- Competition on net zero
- All asset classes
- Greater scrutiny on 'greenwashing'

 **PRI** | Principles for Responsible Investment

 **NGFS**
Central Banks and Supervisors
Network for Greening the Financial System

**THE COALITION OF
FINANCE MINISTERS
FOR CLIMATE ACTION**



**International
Platform on
Sustainable
Finance**

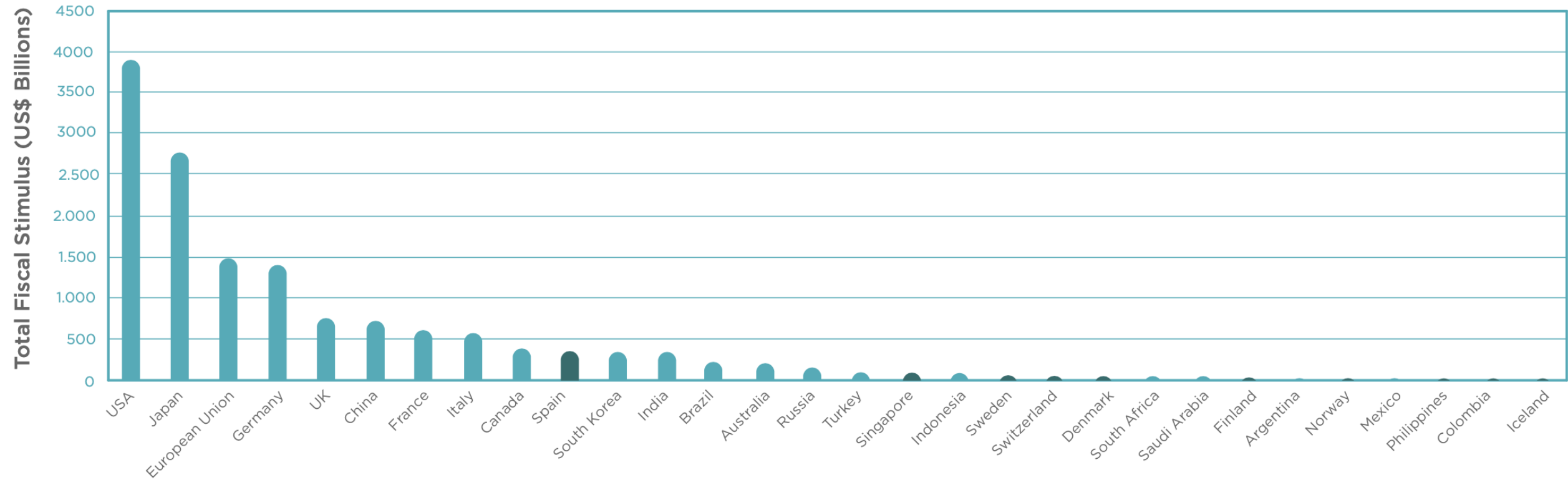
 **Sustainable
Stock Exchanges
Initiative**

 **The
Green Bond
Principles**

Pandemic impact

Figure 2

Announced COVID-19 response fiscal stimulus package

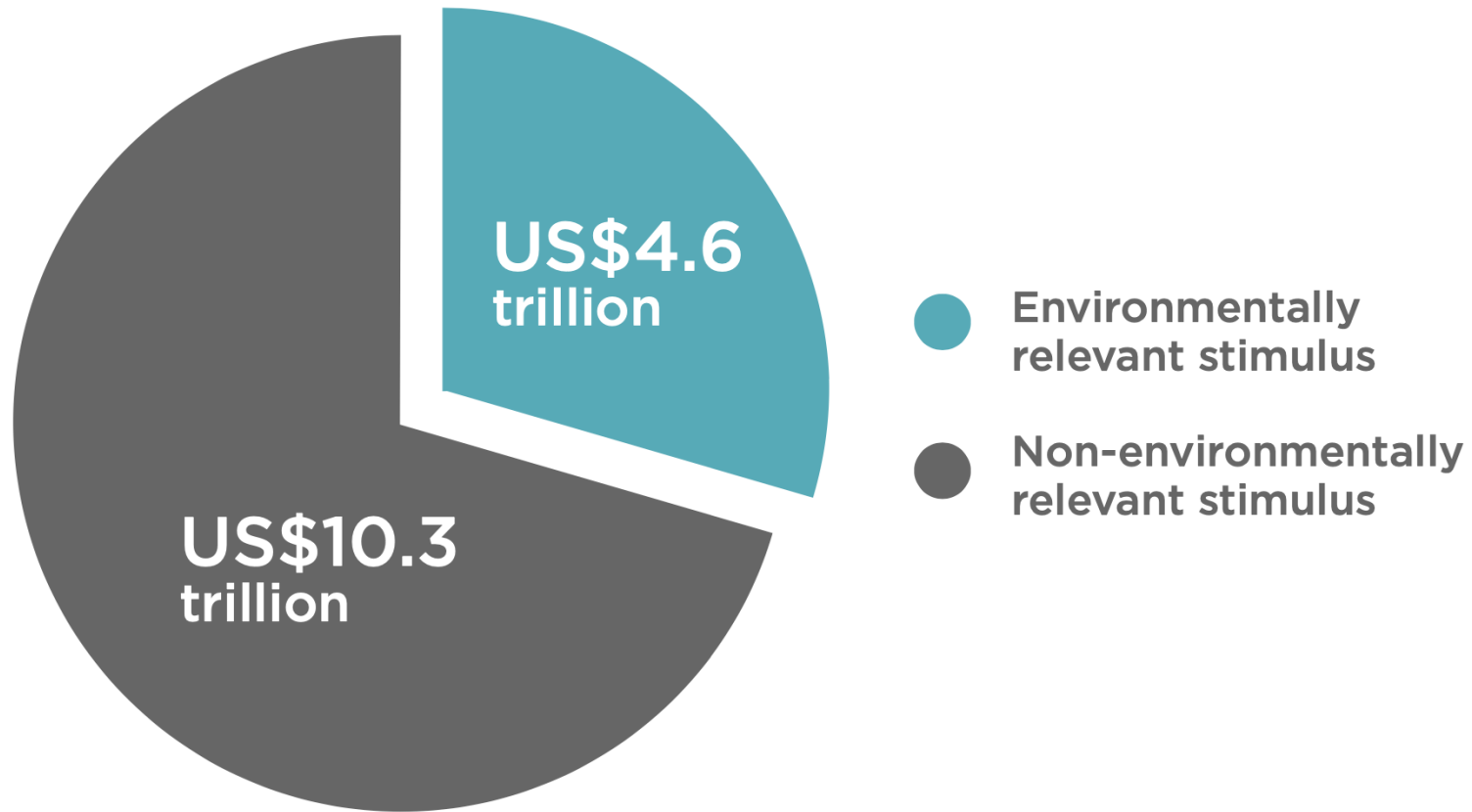


Source: Vivid Economics using IMF COVID-19 response tracker and other sources.

Note: Dark blue represents G20 countries and light blue represents countries outside of the G20. Updated on 1 February 2021.

The impact of pandemic stimulus measures

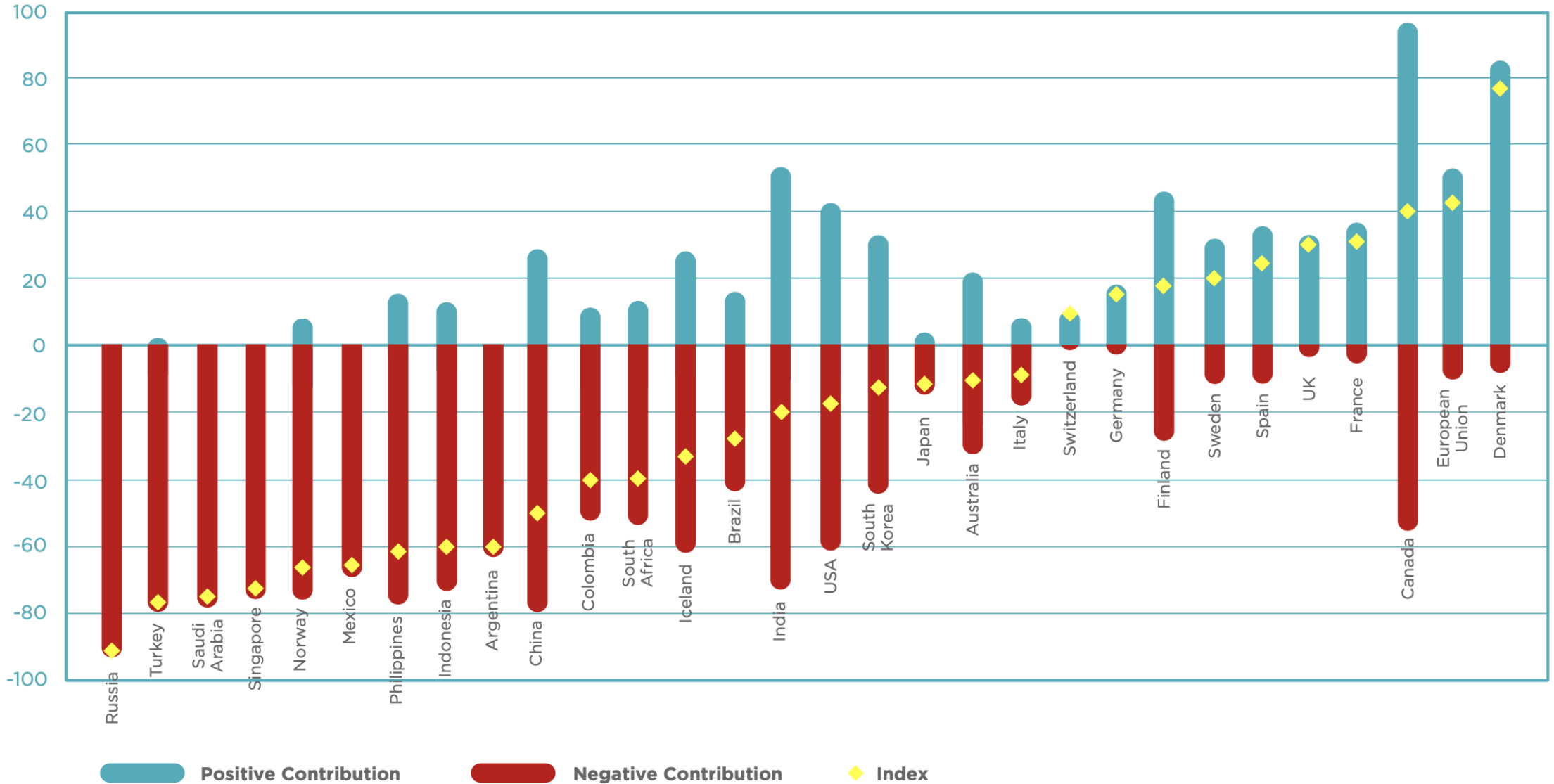
Figure 3 | Sum of global fiscal stimulus policies of countries considered in our analysis



(Vivid Economics)

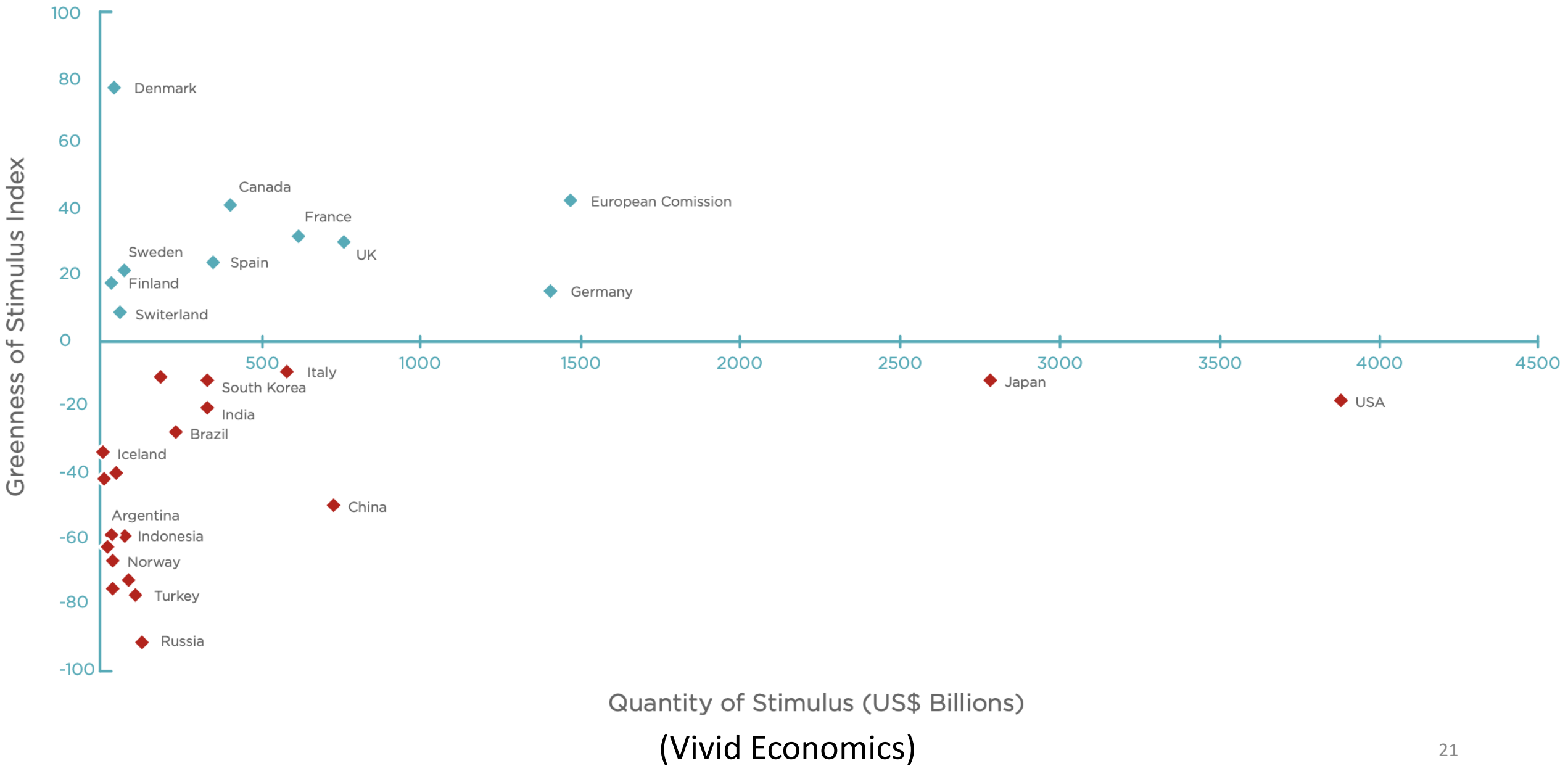
Figure 1

Greenness of Stimulus Index

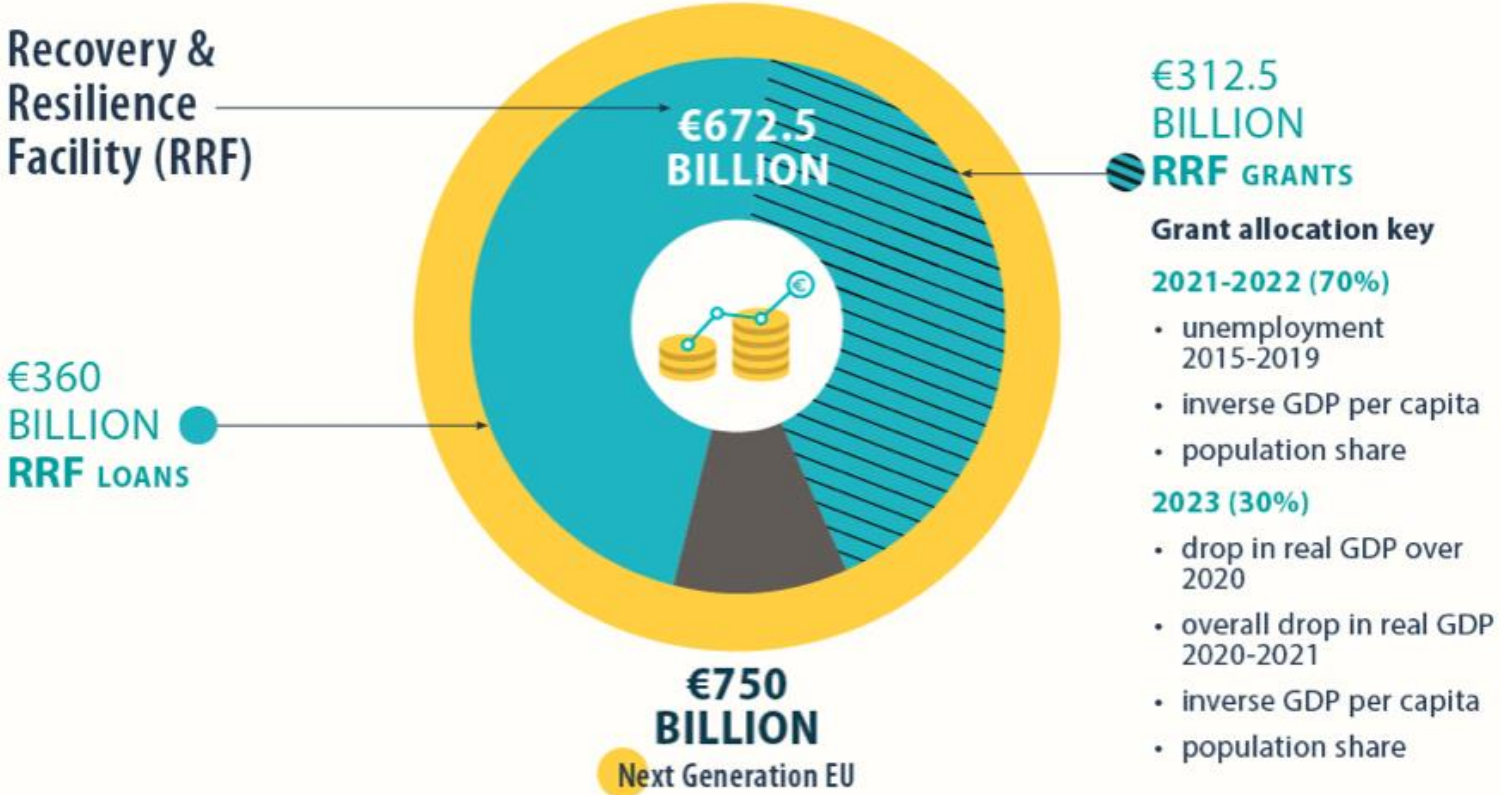


Source: Vivid Economics using a variety of sources, consult Annex II for the entire list of sources

Note: Updated on 1 February 2021



Pandemic impact: EU response



support the green transition

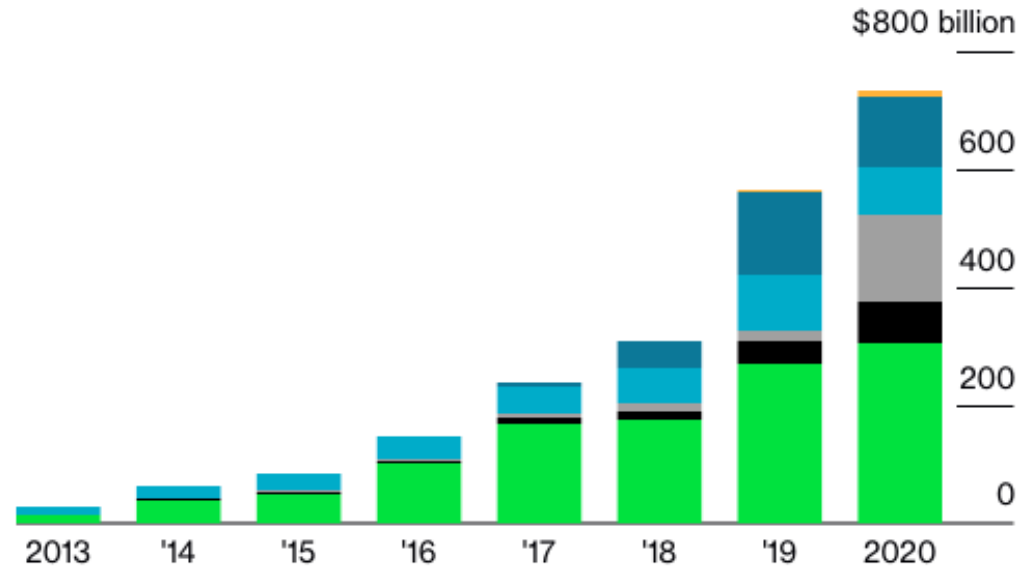
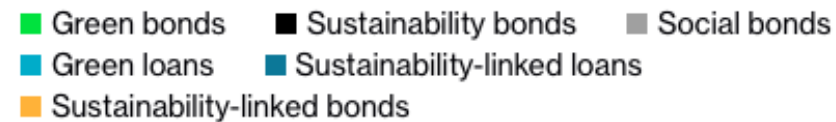
at least **37%** of resources contribute climate action and environmental sustainability

Financial transition: State of play, early 2021

Sustainable debt

Surpassing \$700 billion

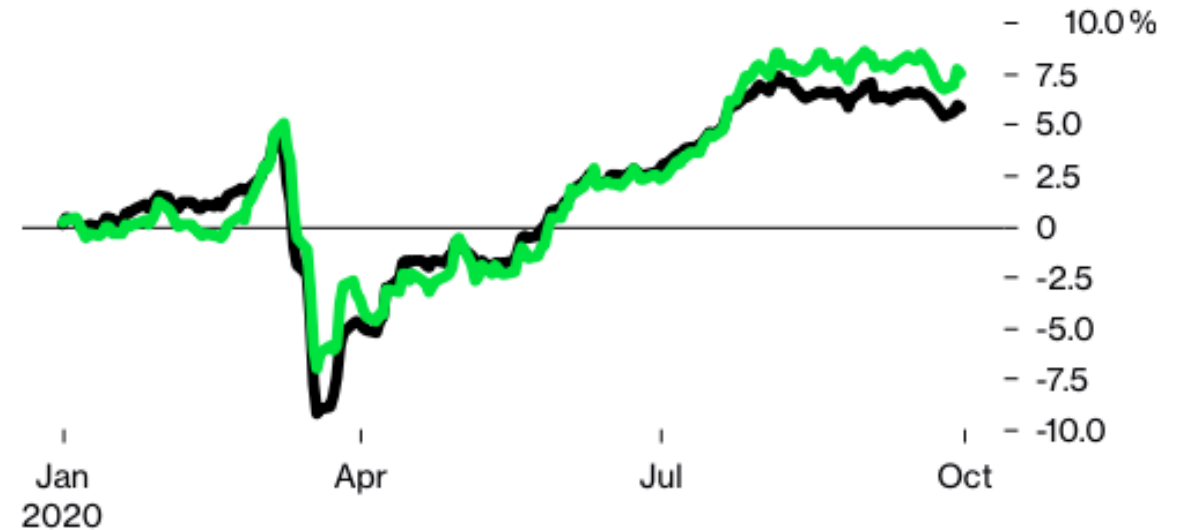
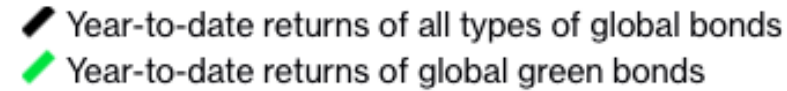
Global sustainable debt issuance



Source: BloombergNEF
Note: nominal dollars

Green on Top

2020 bond performance

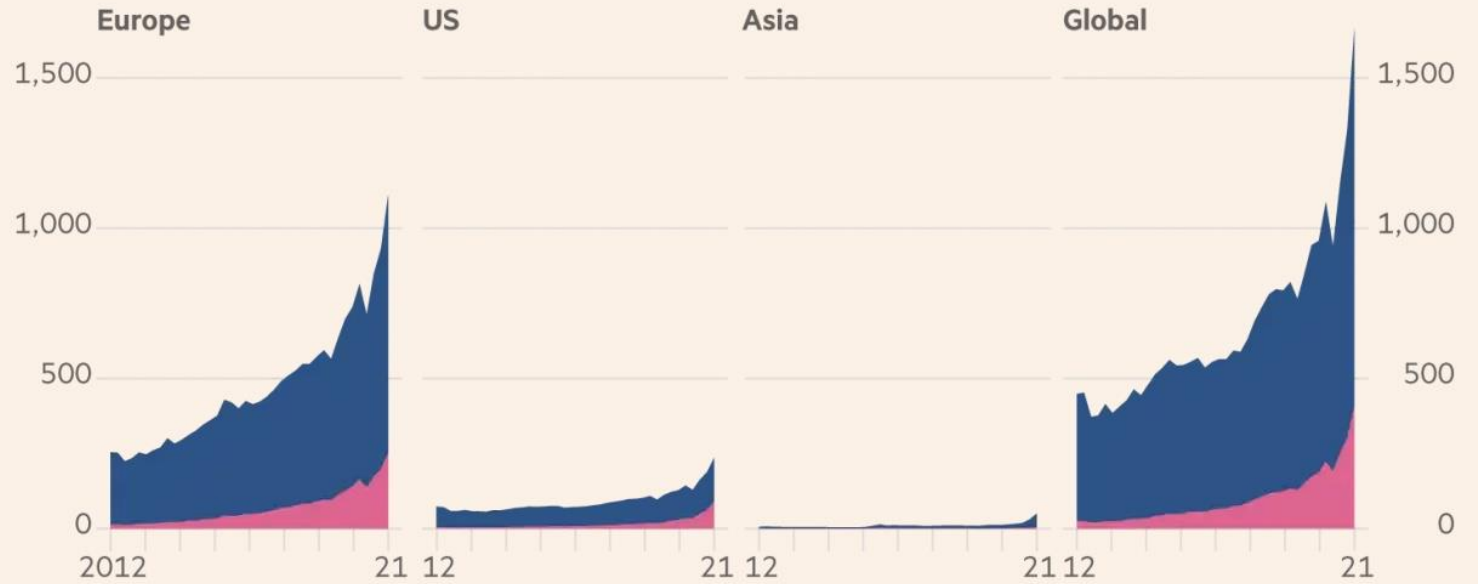


Source: Bloomberg

Fund management

Sustainable fund volumes surge on record inflows

Assets under management (\$bn) ■ Active ■ Passive

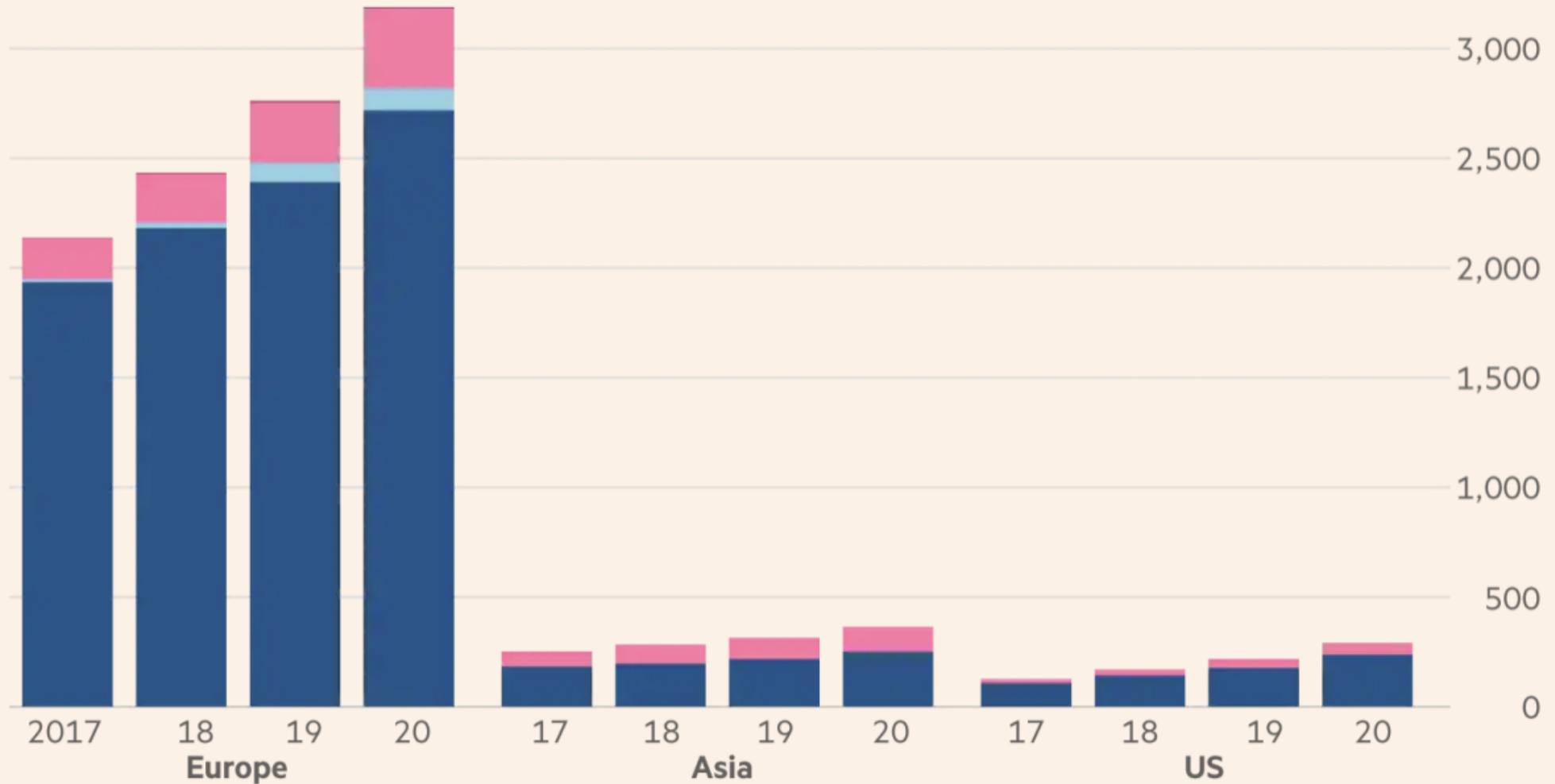


Net flows (\$bn) ■ Active ■ Passive



Increasing number of funds rebranding to ESG

Number of funds by type ■ Active ■ Active repurposed ■ Passive ■ Passive repurposed

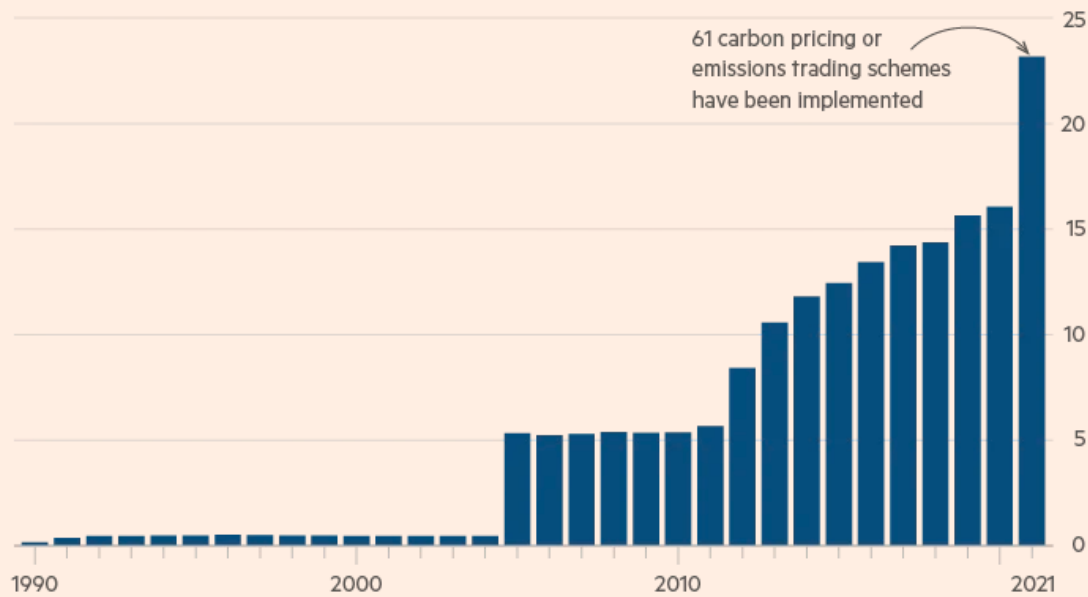


Source: Morningstar
© FT

Carbon pricing

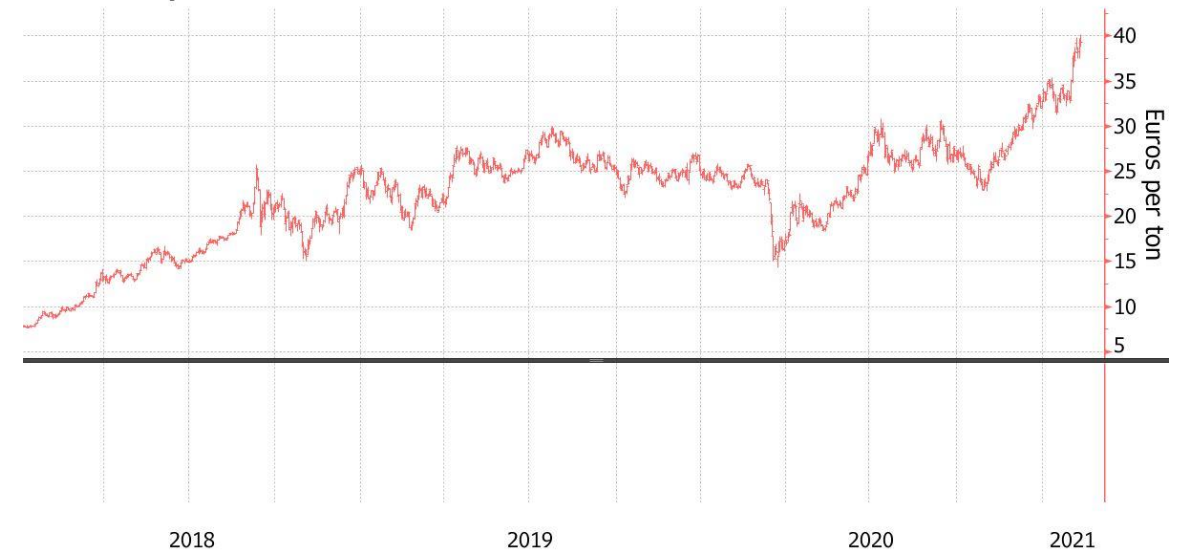
Emissions covered by carbon pricing initiatives

Share of annual global greenhouse gas emissions (%)



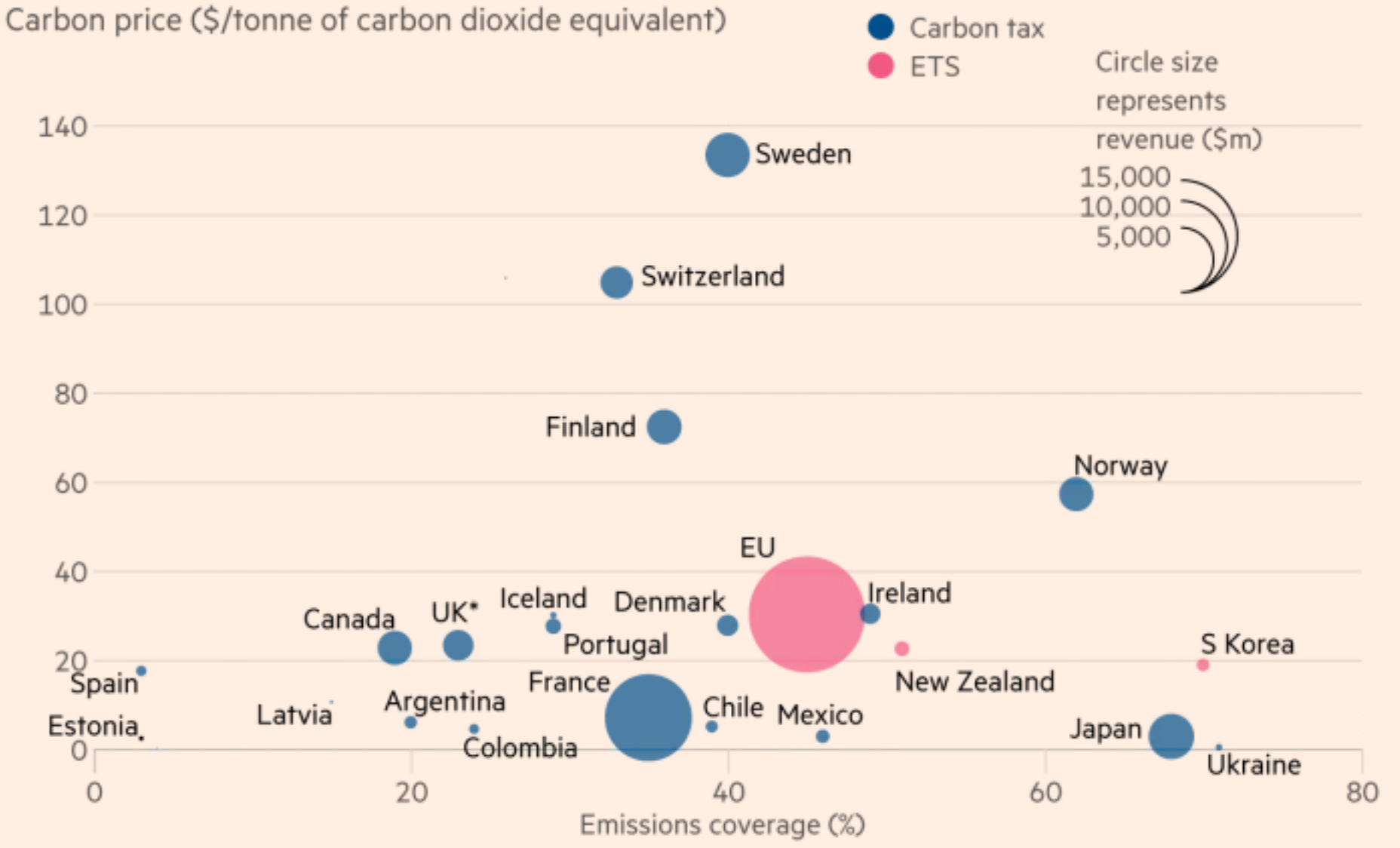
Source: World Bank
© FT

Luring Big-Money Investors EU carbon prices soar on Green Deal



Source: Bloomberg

Carbon price, share of emissions coverage and carbon pricing revenues



2021:

- 'Launch' of China's national carbon market.
- CION proposal for EU ETS reform.
- UK ETS 'established', not yet trading.

Source: World Bank
© FT

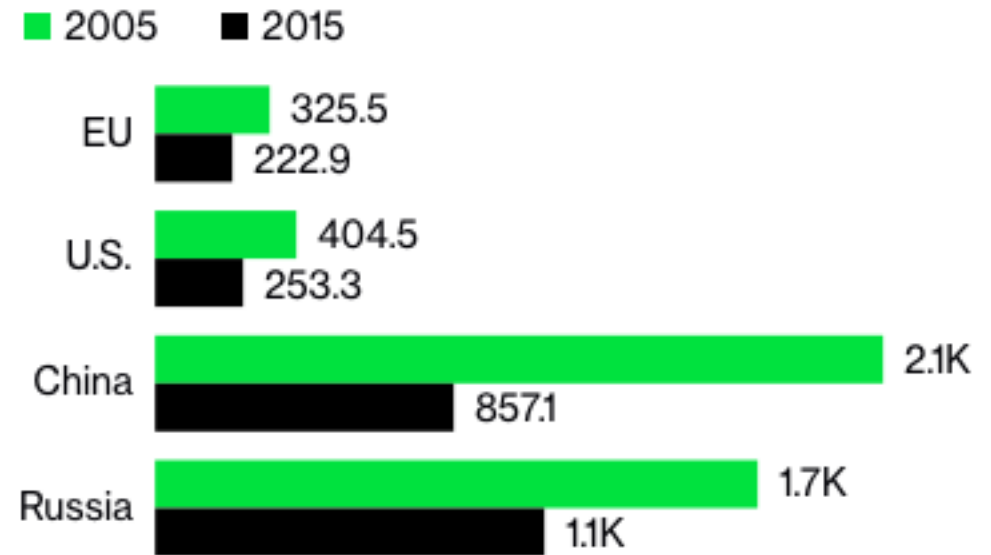
*Carbon price floor Selected emissions trading and carbon tax schemes highlighted

Carbon border adjustment

- 2020: CION announced work on Carbon Border Adjustment Mechanism (CBAM)
- European Parliament due to vote on CBAM resolution in March 2021
- CION CBAM proposals planned for 2021 Q2
- ‘Carbon adjustment’ levy (Biden 2020 campaign pledge)

Carbon in Trade

Intensity of CO2 emissions embodied in exports



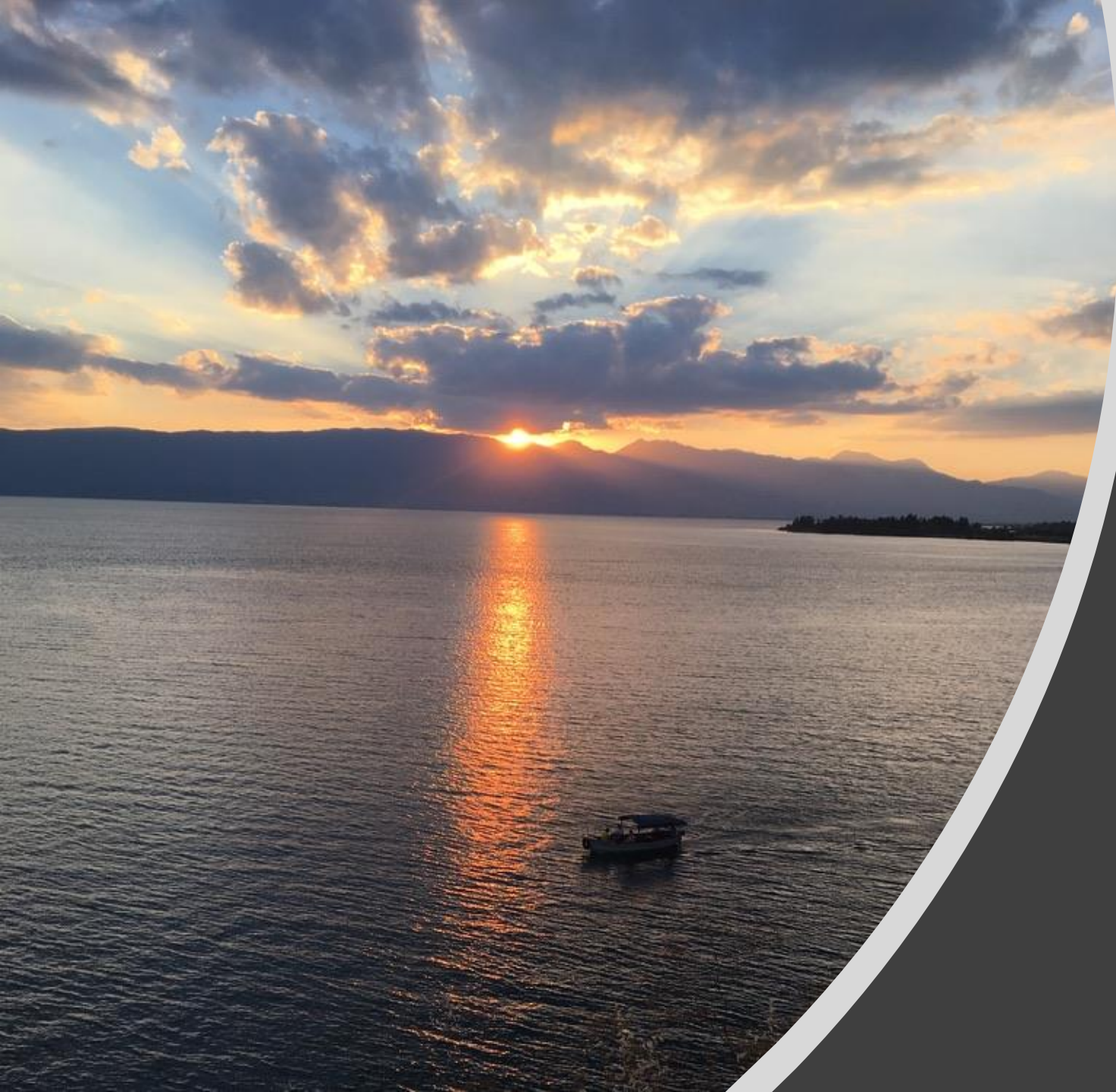
Source: OECD

(Bloomberg)

Implications for Contracting Parties

- Transition of finance flows is accelerating
- Pressure on fossil fuel financing from both markets & official sector
- No reliable fossil fuel lender of last resort
- Growing market support for clean energy & other sustainable economic activities
- EnC *acquis* implementation
- 2030 targets and NECPs





Thank you!