GreenInvest Platform

Report of the Initial GreenInvest Consultation under the German G20 Presidency

Singapore, 9-10 January 2017

Insights and Action Points

- The development and spread of green finance is crucial for developing countries as they advance their own development priorities and seek to implement their responsibilities under the 2030 Agenda and the Paris climate agreement.
- The way in which the rules, standards and norms governing green finance develop, impacts on developing countries, for example by affecting access to and cost of capital.
- Most international processes that address green finance have little input from developing countries, with the exception of the large emerging market players, leading to outcomes that are sub-optimal for most developing countries.
- The GreenInvest platform will seek to address this by offering an interface between the innovations, suggestions and concerns of developing countries and both G20-related and wider processes where green finance is discussed and green markets shaped.
- The platform will also serve to examine key emerging green finance issues of particular importance to developing countries – such as green FDI and developments in digital financial technology. Both issues are of significance to developing countries, presenting both opportunities and challenges, and both are at present poorly understood.
- The platform further aims to provide practical support to green finance development at the national level in developing countries. This includes assistance in the development of strategic "roadmaps" for green finance sector reform and development and the development of a diagnostic toolkit to assist countries embarking on this path.
- Finally, GreenInvest will seek to promote greater interchange among the different international networks and learning platforms relating to green finance, and in particular in the context of country-level support.

1 Introduction

The GreenInvest platform was originally created as part of the Development Working Group during the Mexican G20 Presidency in 2012. Under the German G20 Presidency, it is under the Sustainability Working Group (Energy and Climate) and aims at facilitating dialogue between developing countries and the G20 on the topic of green finance. GreenInvest is operated on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) by UN Environment.

GreenInvest's initial meeting under the German G20 Presidency was held in Singapore on 9-10 January, 2017, and attended by over fifty representatives from twenty developing countries, as well as representatives of international networks and organizations covering banking, insurance, institutional investors and others. Participants discussed effective ways to enhance the voice of developing countries in international developments in green finance, and proposed practical actions for further development.

This report offers a summary of these discussions and identifies areas for further work on the GreenInvest platform. The agenda of the meeting is attached at Annex 1 and the list of participants at Annex 2.

2 Strengthening the Developing Country Voice

2.1 Situation

In an interconnected global financial system, the processes through which the international financial architecture is designed and developed have an impact on all countries and on all financial market players. The rules, standards and norms that result from these processes tend to apply to all.

Among the international processes that most directly shape the international financial rules are those of, or related to, the G20. The vast majority of developing countries have very limited access to the G20 process, especially those forums in which financial cooperation is discussed. This is despite some developing countries being G20 members, or being invited by the incumbent presidency.

GreenInvest exists to help address this challenge. It helps to organize and structure developing country inputs to G20 processes and to other international forums where green finance reform is discussed. This might take the form of specific inputs to particular processes (such as the Financial Stability Board (FSB) Task Force discussed below), around specific topics of particular concern to developing countries (see Section 5), specific convenings around topics on the agendas of international green finance processes, and others still to be developed.

2.2 Debate

Developing countries have limited possibilities to feed into international debates and negotiations around green finance reform, even though these are central to the ongoing design of the international financial architecture.

GreenInvest is intended to serve as an interface between developing countries on the one hand, and the G20 and wider processes in the green finance space on the other. Two cases were raised in particular.

The first is the Green Finance Study Group (GFSG) in the finance track of the G20, initiated under China's presidency in 2016 and continuing under Germany's in 2017. With the UN Environment Inquiry into the Design of a Sustainable Financial System (henceforth the Inquiry) offering secretariat services for both GFSG and GreenInvest, there is a clear way at present to bring developing country concerns to the attention of the different streams of the G20 concerned with green finance. What is needed is a more robust use of the platform to transmit the input from developing countries to the different processes where they need to be considered.

In two structured sessions, the participants discussed the draft report of the FSB Task Force on Climate-related Financial Disclosures (TCFD). The TCFD is a comprehensive effort to recommend new disclosure standards for both public and private institutions, but the process was carried out with limited input from developing countries, even though it is likely that the standards that emerge from the process will effectively be applied globally.

The debate also surfaced another matter – the risk that stricter carbon disclosure requirements might affect sovereign credit ratings in developing countries and thereby raise the cost of capital, especially for those most vulnerable to climate risk.

2.3 Action by GreenInvest

GreenInvest was encouraged to develop the platform to serve as an effective interface between developing countries and international processes in the green finance space. The GreenInvest website will be strengthened to serve this purpose. Key will be to help developing countries decide where to engage – which parts of the international green finance agenda are important and which aspects of the green finance agenda make sense for developing countries, and which do not.

In particular, the Inquiry was invited to ensure that relevant developing country ideas, concerns and suggestions are fed in, where appropriate, to the different G20 streams that touch on green finance, including the Green Finance Study Group, for which it provides the Secretariat.

The participants agreed that the Inquiry and CDP[1] should draw up a "Sense of the Meeting" paper as a submission to the FSB's consultation on the TCFD report and to send a draft of the paper to the participants for comment. This input would then be submitted to the FSB by UN Environment and CDP. The submission is attached as Annex 3.

The development impact of tighter carbon standards on the cost of capital are addressed in Section 5.

3 Strategic Roadmaps for Green Finance Reform

3.1 Situation

The work of the Inquiry revealed that a great deal of innovation is taking place at the domestic level in respect of green finance, much of it in developing countries and fragmented. However, the impact of these reforms needs to be monitored and better understood, and the design features that account either for success or disappointment need to be identified. With more countries engaging in strategic planning for, and engaging in green financial sector reform, GreenInvest aims to pull together existing experience and best practice. It will derive tools from this experience that will assist countries engaging in strategic roadmapping processes, and seek to better streamline international support for and assistance to these processes. It is essential that green finance reform originates from the country level upward and does not cascade down from the international level.

3.2 Debate

Existing and emerging roadmaps in China, Indonesia, Mongolia and Morocco were presented. The participants debated the value of strategic approaches to green finance sector planning and how the

[1] Formerly the Carbon Disclosure Project, the organization now uses only the name CDP.

GreenInvest platform might best address the needs of developing countries in this respect. The following points reflect the discussion:

- Integrated processes at the national level are key – the interlinkages among the different facets of the financial system are such that sector-based approaches are insufficient.
- Reforms undertaken in isolation tend to yield disappointing results, and only function successfully in combination with other reforms. A strategic approach is necessary.
- A strategic roadmap must be based on an understanding of the dynamics of the system, and an understanding of how one aspect supports or affects the others.
- The strategic approach works best when focused on synergies and processes and not on old concepts of linear planning.
- The strategic approach should also focus on clustering reforms for maximum synergetic effect, and on the processes that bring about change. A strong focus on innovation is needed.
- Strategic roadmaps should be based on an understanding of where the markets are heading and the likely international policy environment in the coming years, not on the market as it is now.
- International organizations supporting strategic roadmaps should make an effort to support integrated processes on the ground.

3.3 Action by GreenInvest

GreenInvest can serve as a global learning platform on strategic approaches to green finance reform at the national level. An early focus should be placed on the countries with which the Inquiry is already cooperating on strategic roadmaps, to demonstrate both how best practice can be applied and how international players can best support these processes in an integrated way.

The learning platform will be developed over the course of the coming months, in close consultation with the participants at the Singapore consultation. The process will then be expanded to developing countries invited but unable to attend in Singapore, followed by others in a second phase. This platform will focus on developing countries, but also on the interaction between developing countries, their international cooperation partners and international processes in the green finance space – especially G20 mechanisms. GreenInvest should also explore the potential for South-South cooperation on strategic road-mapping.

GreenInvest proposes in 2017 to invite such engagement with 3-4 countries as pilots for an integrated approach to green finance sector reform planning. This engagement will take place as early as possible in the process to permit optimal deployment of the skills, experience and capacity of the international players (see Section 4). From this, GreenInvest should seek to identify what needs to happen at the international level to permit greater reform success at the national level.

The Inquiry will also develop and deploy a diagnostic toolkit drawing on the experience in developing strategic reform plans in both developed and developing countries. This toolkit will be made available in draft form to the target countries mentioned above and will be refined and fleshed out over the course of the country engagements.

4 Leveraging International Networks in the Green Finance Space

4.1 Situation

Over the past few years there has been a very rapid development of networks, communities of practice, learning platforms and other initiatives that bring public and private actors together in the green finance space. Each provides a range of services to its members, convenes them regularly globally or regionally, often around specific themes, shares experience, learning and best practice and builds capacity.

The key networks around green finance have been expanding both vertically (bringing in more members) and horizontally (expanding the scope of topics they cover). Many of those established for a wider purpose have strengthened their involvement in specific matters relating to green finance, and most are focused on developing countries.

The challenge now is to find the optimal way of leveraging these networks so that they support developing country green finance reform in a coordinated manner and find ways to work together – especially at the country level – in a way that greatly strengthens their collective impact.

4.2 Debate

Eight[2] important networks presented their work in Singapore, underlying the richness and diversity of the present mechanisms to boost cooperation with developing countries around green finance reform. Furthermore, the membership of the eight networks has grown so that they now, collectively, represent a wide spectrum of the financial and capital markets.

The presentations underlined the extent to which the networks are beginning to converge, offering complementary services. They are beginning to strengthen their links both to government process and to market reforms. Thus, far from limiting themselves to information sharing, they begin to play a more active role in the contributing to the reform debate.

It was clear from the discussion that the role played by the networks in support of developing country reform efforts is of great importance, and that the networks can increase their synergy and the cooperation among them.

4.3 Action by GreenInvest

GreenInvest aims to serve as a mechanism that will favour cooperation among the different networks, particularly on support to green finance reform efforts by developing countries. It will create a space on its website that will feature each of the networks and highlight new developments, services and products, and it will seek to identify opportunities for common work in appropriate countries and areas.

In particular, GreenInvest will seek to involve the networks actively in the countries (especially Morocco, Mongolia, Argentina and Nigeria) in which Inquiry country engagements are currently underway or at an advanced planning stage. These countries will serve as pilots for broad network involvement, thereby not only strengthening and deepening the input to these country processes but also demonstrating the synergies that can be achieved when the networks pull together towards a common goal.

GreenInvest will also invite the networks to play a part in the research initiatives outlined in the next section. GreenInvest will draw on their resources and seek opportunities to join up and cooperate on

[2] The Alliance for Financial Inclusion (AFI); the Sustainable Banking Network (SBN); the Sustainable Stock Exchanges initiative (SSE); the Principles for Sustainable Insurance (PSI); the Sustainable Insurance Forum (SIF); the Principles for Responsible Investment (PRI); the V20 network of vulnerable states; and the UN Environment Finance Initiative.

specific research tasks. Discussions are already under way with AFI to look at the convergence of financial inclusion and green finance concerns.

5 Towards a Research Agenda

5.1 Situation

The principal purpose of GreenInvest is to serve as an interface between developing countries and international green finance process, and to strengthen developing country green finance reform efforts. However, green finance is evolving quickly and there are many unanswered questions relating to how developing countries might best implement reforms that prepare them for the markets of the future.

For this reason, GreenInvest plans to include a modest research agenda, aimed not at academic analysis, but rather at identifying the key issues and their potential impact on developing countries. It will also identify areas for further research.

5.2 Debate

The discussion focused on two topics as examples of the issues with which developing countries are grappling and around which greater understanding needs to be generated.

The first is around the changing nature of international financial flows to green priorities in developing countries. A great deal is known about classical Foreign Direct Investment (FDI), including the particular issues relating to investment in developing countries. Similarly, we have a deep understanding of the strengths and weaknesses of the legal agreements that govern such investment – from bilateral investment treaties and investment provisions in preferential trade agreements, and increasingly also the rights and obligations built into contracts between outside investors and host countries in the developing world. We know increasingly more about the impact on sustainable development of investment disputes. And we have a precise knowledge of the steps developing countries might take if they wish to improve their attractiveness as an investment destination. Organizations like the United Nations Conference on Trade and Development (UNCTAD), the Organisation for Economic Co-operation and Development (OECD) and others are repositories of robust data sets and possess long bibliographies of relevant research.

Comparatively little is known, by contrast, about the green dimension of FDI. There are no broadly accepted definitions, no established methodology for calculating the volumes and flows of green investment, and little robust analytical work done on the impacts of green investment in comparison to regular investment. Scaling up green investment and identifying related investments in developing countries require a better understanding of the pros and cons of green forms of investment and how the former might best be encouraged and the latter discouraged.

A second topic relates to the benefits and hazards of digital financial technology – or fintech. Fintech has begun to play a central role in the development of financial and capital markets worldwide – in both developed and developing countries. An active debate is under way seeking to weigh up the obvious benefits available through the introduction and spread of fintech on the one hand, with the threats associated with what is still a largely unknown and unregulated space.

The Inquiry has undertaken some preliminary work on this topic. It has assessed the potential of fintech to speed the transition to a greener and more inclusive financial system. What is now needed is to understand the role of fintech in the acceleration of green and inclusive reforms in developing countries.

Finally, from the debate on the FSB report (see 2.2) a third topic emerged. This relates to the impact on developing countries of tightening standards for environmental performance of enterprises and public funders, in particular relating to the low-carbon transition. While generally a welcome trend, it could have unintended consequences – for example in raising the cost of capital, especially for climate-vulnerable countries. Since developing countries have little voice in the international forums where these standards are developed and debated, this matter takes on a particular importance.

5.3 Action by GreenInvest

GreenInvest has commissioned a scoping paper on the changing nature of financial flows to developing countries for green priorities – or Green FDI. It will look in particular at how these flows are changing, what we know about the impact on the green transition, the obstacles to increasing these flows, and policy measures that could augment them. On the basis of this paper, GreenInvest will convene a meeting of developing country and other experts to identify priority action that it might take internationally – and especially within the G20 context.

Similarly, GreenInvest has commissioned a background paper focused on the implications of digital financial technology on green finance in developing countries. The paper will seek to distinguish between the impact of disrupting business models and prospects for longer-term changes in the way financial markets operate, focusing in particular on how the latter might best be secured. A meeting of developing countries along with specialists with a particular focus on green digital technology, the required policy and regulatory framework, and how to optimize the positive impact on developing country green priorities will be convened and a wider research agenda worked out.

Finally, building on the work of UNCTAD on low-carbon FDI and technical assistance in the promotion of green investment, GreenInvest will commission a scoping paper on the impacts, positive and negative, on developing countries of measures aimed at improving the green and carbon-related performance of enterprises and investors, and in particular the impact on access to investment capital by developing countries.

6 Conclusion and Next Steps

The Singapore consultation was a first test of the GreenInvest platform under its new configuration. It was designed to test and demonstrate the value proposition for the platform both as an interface between developing countries and both G20 and wider international processes in the green finance space, and to gauge both the potential and the challenges for cooperation on the platform. It has begun to do this by identifying a number of issues of broad interest to developing countries and to map out pathways through which these issues might be addressed.

GreenInvest does not seek to represent developing country views, but instead to identify ways in which developing country voices might be heard and targeted on international green finance issues. It is now very clear that the issues are both important and valuable; there are great opportunities for green finance to advance sustainable development, but there are also challenges that need to be understood and managed. There is a good deal of momentum behind green finance reform, but now it needs to go beyond momentum towards transformation.

GreenInvest aims to ensure a more regular and constructive dialogue between developing countries and G20 forums. This will contribute to a more balanced development of the international financial architecture, helping to ensure that this development is based on a genuine commitment to sustainable development and serves to achieve the 2030 Agenda (and its Sustainable Development Goals) and the implementation of the Paris climate agreement. GreenInvest will also seek ways to contribute to other processes such as the G7 or the Friends of Sustainable Finance at the United Nations in New York.

The programme in 2017 will focus on two events – those on Green FDI and on fintech, mentioned above – and a final round-up meeting late in the year to set out a work programme and key priorities for the coming year. It will also focus on a handful of pilot countries for strategic roadmapping and the deployment of the skills, capacities and insights available through the different international networks around green finance. And it will conduct a modest research programme as referenced above.

GreenInvest will also develop its communications and its website, and will work on widening the audience among developing country finance, development and environmental communities and the global network of experts on green finance as it affects developing countries.

The Singapore consultation was only a beginning, but it appeared to validate the need for and the potential of a learning platform of this sort. It indicated a number of specific pathways forward. These will now be followed with energy and determination.

Annex 1: Agenda

<u>GREEN FINANCE, G20 AND DEVELOPING COUNTRIES</u>

G20 GREENINVEST LAUNCH UNDER GERMANY'S G20 PRESIDENCY

– SINGAPORE, 9-10 JANUARY 2017 –

AGENDA

<u>9 JANUARY</u>

08.30-09.00 **Registration and Coffee**

09.00-09.45 **Opening, Welcomes and Introductions**

Host – Singapore Management University, Dean James Tang

German G20 Presidency – Dr Michael Witter, German Ambassador, Singapore

Introducing GreenInvest, event objectives and process – Mark Halle, UN Environment

09.45-10.30 **Green Finance in Perspective**

Green finance and the international financial system – Sing Chiong Leong, Deputy Managing Director, Monetary Authority of Singapore

Overview of Developments in Green Finance – Simon Zadek, Co-Director, UNEP Inquiry

Discussion: how important is green finance turning out to be for developing countries, and how well are developing countries able to follow and participate in key international processes around green finance?

Moderation: Mark Halle, UN Environment

10.30-11.00 **Break**

11.00-12.45 **Key International Processes on Green Finance: the Role of Non-G20 Developing Countries**

Special Example: FSB Task Force on Climate-Related Financial Disclosure - Yeo Lian Sim, Special Advisor, Singapore Stock Exchange; Member, Financial Stability Board Task Force on Climate-Related Risk Disclosure: first discussion.

Panel: Jane Stevensen (moderator), Rathin Roy (India), Enrique Lendo (Mexico), Fisseha Aberra (Ethiopia), Yeo Lian Sim (Singapore)

12.45-13.45 **Lunch**

13.45-15.30 **Building National Roadmaps**

Case studies:

1. Indonesia and ASEAN – OJK Indonesia
2. China's Green Finance Roadmap – Wang Yao, Green Finance Committee
3. Mongolia – Tumurkhuu Davaakhuu, Mongolian Bankers' Association
4. Morocco – Lamia Merzouki, Casablanca Finance City

Lessons learned and priorities for the future – discussion moderated by Simon Zadek, UN Environment

15.30-15.45 **Break**

15.45-17.30 **Financing Sustainable Development**

Developing country priorities on green finance – Pedro Paez, Former Minister, Superintendent of Financial Services, Ecuador (G77 chair)

Green FDI: Paul Wessendorp, UNCTAD

Disruptive finance: the power of fintech – introduction by Simon Zadek

Panel: Rajasree Ray (India), Nuru Mugambi (Kenya), Wang Yao (China), Peter Lovelock (SMU)

Moderation: Mark Halle, UN Environment

18.00-21.00 **Reception and Dinner**

10 JANUARY

08.30-09.00 **Coffee**

09.00-09.15 **Summary of Day One:** Liesel van Ast, UN Environment (Finance Initiative)

09.15-10.30 **International Cooperation to Enable National Action**

How can international cooperation most effectively support action on green finance by developing countries?

Introduction to the key global learning networks:

- Alliance for Financial Inclusion – Robin Newnham
- Principles for Responsible Investment – Sagarika Chatterjee
- Principles for Sustainable Insurance/Sustainable Insurance Forum – Butch Bacani
- Sustainable Banking Network – Rong Zhang
- Sustainable Stock Exchange Initiative – Mohammed Omran
- V20 Network of Vulnerable Developing Countries – Matthew McKinnon
- UNEP Finance Initiative – Liesel van Ast

Moderation: Mark Halle, UN Environment

10.30-10.45 **Break**

10.45-13.00 How can the international learning networks build cooperation to optimize their service to developing countries?

Table discussions: with table leaders, including Mohammed Omran (Egypt), Patrick McCaskie (Barbados), Fisseha Aberra (Ethiopia), Naeeda Crishnamorgado (OECD), Sagarika Chatterjee (PRI).

Moderation: Mark Halle, UN Environment

13.00-14.15 **Lunch**

14.15-15.15 **FSB Task Force: Towards a Developing Country Input (second discussion)**

Panel led by Jane Stevensen, with Mohammed Omran, Yeo Lian Sim

15.15-15.45 **Break**

15.45-16.45 **Next Steps for GreenInvest: Building Green Finance for Sustainable Development**

How can the GreenInvest platform best serve the needs of developing countries in the green finance space? Introduction by Mark Halle, UN Environment

Topics:

- Amplifying the voice of developing countries in international processes linked to green finance
- Serving as a meeting point for international networks in green finance
- Assisting developing countries with strategic road maps for finance sector reform
- Addressing research topics of importance to developing countries
- New areas – e.g. the Global Infrastructure Investment Coalition

Panel: Lead-off: Rathin Roy (India); Kobsak Duangdee (Thailand). Moderated by Simon Zadek

16.45–17.00 **Closing Comments and Thanks**

Katrin Enting (BMZ), Mark Halle (UN Environment), Ann Florini (Singapore Management University) (to be confirmed)

17.40-19.00 **Singapore, Green Finance and the Collaborative Challenge**

A public event organised by SMU, United Nations Environment (UNEP) and the Singapore Institute of International Affairs (SIIA)

SMU Administration Building, Mochtar Riady Auditorium

Annex 2: List of Participants

Name	Title	Institutions
Fisseha Aberra	Director, International Financial Institute Cooperation Directorate	Ministry of Finance and Economic Development, Ethiopia
Diana Almoro	Asia Pacific Regional Coordinator	UN Environment Finance Initiative
Esther An	Chief Sustainability Officer	City Developments Limited
Butch Bacani	Programme Leader	UN Environment Finance Initiative
Rajeeva Bandaranaike	CEO	Colombo Stock Exchange
Manjeet Bucktowarsing	Senior Financial and Research Analyst	Stock Exchange of Mauritius
Lorenzo Chan Jr	President & CEO & Pioneer Life and Retail Organisation Head	Pioneer Group
Sagarika Chatterjee	Associate Director, Policy and Research	PRI
Leong Sing Chiong	Assistant Managing Director	MAS
Tumurkhuu Davaakhuu	Chief Support Officer	Arig Bank
Kobsak Duangdee	General Secretary	Thai Bankers Association
Jane Duasing	Senior Policy Advisor	Alliance for Financial Inclusion
Katrin Enting	Senior Policy Officer Climate Policy and Climate Financing	BMZ
Jorge A Flores Padilla	Superintendente de bancos y otras instituciones financieras	Comisión Nacional de Bancos y Seguros, Honduras
Ann Florini	Professor of Public Policy; Director, Master of Tri-Sector Collaboration	Singapore Management University
Luz Foo	Executive Director (International)	MAS
Paul C G Gwee	Secretary-General	ASEAN bankers association
Mark Halle	Senior Adviser	UN Environment Inquiry
Archana Hingorani	CEO & Executive Director	IL & FS Investment Managers and member of UN Environment Finance Initiative Global Steering Committee
Min-Kyu Jang	Representative of the Deutsche Bundesbank for Southeast Asia Financial Counsellor	Embassy of the Federal Republic of Germany
Unenbat Jigjid	Executive Director	Mongolian Bankers Association
Benjamin Lee	Deputy Director (International Finance Division)	MAS
Enrique Lendo	Head of International Affairs	Ministry of Environment and Natural Resources, Mexico
Alvin Lim	Director (International)	Ministry of Finance, Singapore
Peter Lovelock	Director	TRPC
Patrick McCaskie	Director, Research and Planning Unit	Ministry of Finance and Economic Affairs, Barbados
Matthew McKinnon	Specialist, Climate Change, Energy and Disaster Risk Reduction, Bureau for Policy and Programme Support	UNDP
Lamia Merzouki	Deputy General Manager	Casablanca Finance City Authority
Naeeda Crishna Morgado	Policy Analysist on green growth and climate change	OECD

Name	Title	Institutions
Nuru Mugambi	Director of Communications and Public Affairs	Kenya Bankers Association
Riteshkumar Rajkumar Nandwani	Manager	SEBI
Robin Newnham	Head of AFI Policy and Capacity Building	Alliance for Financial Inclusion
Assel Nurakhmetova	Senior Consultatnt	Astana International Financial Centre
Mohammed Omran	Chairman	The Egyptian Exchange
Pedro Paez	Superintendente de Control del Poder del Mercado	Superintendencia de Control del Poder del Mercado, Ecuador
Muhammad Mijanur Rahman Joddar	Executive Director	Bangladesh Bank
Rajasree Ray	Economic Adviser	Department of Economic Affairs, Ministry of Finance, India
Rathin Roy	Director of National Institute of Public Finance and Policy	National Institute of Public Finance and Policy, India
Kem Sambaddh	General Manager	The Association of Banks in Cambodia
Edi Setijawan	Director	OJK
Yeo Lian Sim	Special Adviser	Singapore Exchange Limited
Rath Sovannorak	Deputy Director General	Banking Supervision, National Bank of Cambodia
Jane Stevensen	Engagement Director to the Task Force for Climate-related Financial Disclosures	CDP/CDSB
Winnie Tan	Regional Head of Sustainability	Standard Chartered *Singapore
James T H Tang	Dean, School of Social Sciences, Professor of Political Science, Special Advisor to the President on Greater China	Singapore Management University
Carol Teo	Director, Capital Markets Intermediaries	MAS
Liesel van Ast	Signatory Relations Manager	UN Environment Finance Initiative
Paul Wessendorp	Chief of Investment Promotion Section/Investment & Enterprise division	UNCTAD
Michael Witter	Ambassador	Embassy of the Federal Republic of Germany
Wang Yao	Professor and Director General (also Director, Research Center for Climate and Energy Finance)	Central University of Finance and Economics
Simon Zadek	Co-Director	UN Environment Inquiry
Rong Zhang	Global Coordinator for SBN	IFC

Annex 3: Submission to the Consultation on the Draft Report of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD)

Summary

- ***Developing countries face the most significant effects of climate change and offer enormous low-carbon investment opportunities, and so the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) is welcomed***. Financial decision-making must be sensitised to climate risks with the objective of redeploying capital towards lending, investing and insurance consistent with the Paris Agreement to limit global temperature increases to 1.5 to 2°C.
- ***The TCFD has sought to ensure an open dialogue and so receptive approach to understanding the current situation and options, but has to date been mainly focused on OECD and major developing country actors***. Developing countries need to be consulted to better understand their specific challenges, needs and innovative solutions
- The TCFD recommendations are welcomed for advancing the incorporation of climate considerations into financial decision-making, but also should highlight broader policy implications that need to be addressed through international co-operation, including short- and medium-term impacts on the cost of capital in developing countries.

Key Points

1. Climate risk is one of the greatest challenges of our time and must be more effectively taken into account across the world's financial system in order to ensure adequate financing of a low-carbon, climate-resilient global economy, as well as to secure the interests of the owners of capital.
2. Accordingly, the work of the TCFD is welcomed as an important contribution to achieving this integration. Its members and the FSB itself are to be congratulated on the extensive treatment of the topic, and the recommendations made to advance climate considerations in financial, business and government decision-making.
3. Developing countries face some of the most significant effects of climate change, are most vulnerable to these effects, and have the greatest financing needs to mitigate these challenges and secure sustainable development. This, in turn, raises critical questions of climate justice, burden sharing, compensation and the appropriate role of financial markets in enabling an equitable transition.
4. The TCFD's commitment to open dialogue is to be welcomed, but has largely confined itself to private, OECD and major developing country actors. This is understandable given that these actors are responsible for deploying a large portion of the world's financial assets. However, legitimate and effective dialogue in a complex, interrelated world requires greater focus on those impacted, and also on public actors that play a critical role in determining what risks and impacts private actors are encouraged or required to take into account.
5. Physical risks of climate change rise exponentially with increasing temperature. In light of the potential insufficiency of the 2°C target to prevent substantial harm particularly to developing countries, the Parties to the Paris Agreement agreed to pursue efforts to limit global temperature increase to 1.5°C.

Financial markets, and the TCFD's report and recommendations on scenario analysis, might usefully reflect this higher ambition.

6. Climate and development dynamics in developing countries are diverse and complex, including health and civil security, as well as immediate challenges such as natural catastrophes, water shortages and food security. Climate-related risks need to be considered through this broader frame as they directly and indirectly impact investment decisions and broader development.

7. Developing countries' growing energy needs represent the greatest opportunity for low-carbon investment globally, particularly where technology leapfrogging is possible. At the same time, they face particular challenges in securing finance for sustainable development, often being more dependent on international financial flows, which are costly as a result of many factors including incomplete perceptions of political risk and foreign exchange volatility often emanating elsewhere. Any measures that further increase the costs of such investments will restrict development and the transition to low-carbon, climate-resilient economies.

8. Developing countries are further disadvantaged due to their comparatively underdeveloped financial institutions that often lack adequate breadth and depth of climate-related capabilities, and similar constraints in domestic users of capital. Yet both face significant transition costs and potentially at-risk assets driven in the main by international developments.

9. In the long term, there will be benefits for all in incorporating climate risks across the financial system, but there may be more extensive policy consequences that need to be understood and addressed, particularly in the short to medium term for developing countries impacted by investors' macro- as well as purely project-level analysis. While recognizing that the TCFD's formal mandate has been focused on enterprise-level risk pricing and management, its work may have broader impacts on the incorporation of climate risk into financial markets, such as sovereign ratings. Such impacts have policy and market implications, requiring deeper analysis involving actors from developing countries, including members of the Vulnerable 20 (V20), and where necessary requiring international co-operation in addressing arising challenges and opportunities.

10. While the focus on private capital flows and so market-related risks is understood, many of the world's poorest developing countries still rely heavily on international public financial flows. These include direct financing from development agencies, export credit agencies and facilities of outward investors, as well as on-lending to domestic financial institutions, notably banks. It is important to provide coverage of how climate risks and their consideration in financial decision-making might, and should, affect these key public-private financing interfaces.

11. Principle-based voluntarism provides for flexible, dynamic market adoption. However, it may be inadequate as it may open the way for an uneven, unbalanced and so potentially inefficient and unfair incorporation of climate risk into financial decision-making. Developing countries are, in effect, forced to adopt international rules such as Basel III, designed to deal with failures in developed economies' financial markets, while climate risk is considered a purely 'market' decision despite the evidence that a failure to move quickly will have catastrophic effects notably on developing countries. One particular aspect of this uneven application concerns international development finance institutions and potentially export credit agencies that, in moving early as expected, will more immediately disadvantage climate-vulnerable, developing countries.

12. While it is understood that the TCFD has a specific and limited scope, as a public process, it would be important to consider the policy impact of its recommendations, including on developing countries.

This would include, for example, highlighting a range of issues that must be addressed even if they range beyond its formal scope. Thus, in conclusion, the TCFD could enhance its work and its impact on financial markets, climate change, and above all equitable, sustainable development if it strengthened its report and recommendations in the following areas:

a. Most broadly, to distinguish in the TCFD's analysis and recommendations the experience, concerns and needs of developing countries, and to point to the potential implications, intended and unintended, short and longer-term, of the TCFD's recommendations for developing countries.

b. Signalling that climate risk concerns both private and public goods, and that financial markets need to be subject both to the discipline of effective risk pricing and mitigation and the framing requirements of policies in pursuit of public goods.

c. Broadening the scope of climate-related risks to include a wider spectrum of aspects and pathways, including 1.5°C scenario analysis, and to consider the feedback effects of macro impacts of unsustainable financing on the financial risks, particularly relevant for 'universal' investors such as pension funds.

d. Providing greater coverage of the public financing dimensions of enhanced consideration of climate-related risks, taking account of its importance for developing countries.

e. Highlighting the potential for short- and medium-term, as well as long-term effects on different flows of finance, including portfolio investment, FDI and public finance, and their costs, especially to developing countries, considering behavioural and other factors that in practice determine financial decisions.

f. Addressing the need for robust institutional and expert capacity to allow developing countries to implement new disclosure obligations while optimizing their impact on their development priorities. Capacity should be strengthened in particular for corporations as disclosers, financial institutions as both disclosers and users, and financial regulators and civil society as users.

g. Pointing to the need to better understand the broader policy implications of enterprise-level action in incorporating climate-related risks into financial decision-making.

h. Addressing analytically rather than as a principled approach the matter of voluntarism, highlighting the advantages and potential downsides, including evidence in practice and options for ensuring a level playing field and consistent approach.