Austrian Climate Change Workshop 2018 - Summary Report

The Way forward on Climate and Sustainable Finance

In close cooperation with the Austrian Federal Ministry of Sustainability and Tourism, Kommunalkredit Public Consulting (KPC) has hosted the Austrian Climate Change Workshop 2018 from 23-24 April 2018 at Kommunalkredit Group's conference facilities in Vienna. The successful event focused on international climate finance and sustainable finance based on thematic presentations from national and international experts in these fields.

About 100 participants both from Austria and abroad actively engaged in discussions with the speakers and directly contributed their views and perspectives in two moderated break-out sessions outlining the way forward in international climate finance and sustainable finance. This document summarizes the main sessions and documents the inputs gathered from the participants in the break-out sessions. The presentations given at the event are available at KPC's website and complement this summary.

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Session Outcomes

Session I

International Climate Finance – pathways for low-carbon development

The aim of this session was to provide insights from climate policy experts on the outcomes of COP 23 in Bonn, as well as an outlook on COP 24 in Katowice and latest developments at the Green Climate Fund. Specifically, the speakers discussed recent developments in the context of the international climate negotiations and provided an overview on the required measures to pave the way for low-carbon development pathways. Finally, special attention was given to the activities of the Green Climate Fund (GCF).

Main Findings

- The provision of International Climate Finance by industrialized nations to developing countries was highlighted as being the grease and fuel in climate negotiations.
- Meeting the USD 100 bln climate finance target by 2020 and the new collective financing target to be agreed upon in 2025 will present key challenges for industrialized countries. However, the provision of climate finance should not be seen as a burden rather as common interest also of Developed Countries that Developing Countries would tackle the issue of climate change. Public intervention in climate finance can just pave the way for the private sector involvement.
- The Green Climate Fund (GCF) is the largest financial mechanism in the United Nations climate finance landscape. So far, around USD 10.3 bln have been pledged to the GCF by international donors including Austria and 76 project proposals have been accepted for financing, resulting in an estimated 1.3 bln tonnes of avoided CO_2 and 217 mln people as expected beneficiaries. The GCF aims at a balanced number of mitigation and adaptation projects as well as country ownership in investment projects
- Art. 2.1.c of the Paris Agreement sends a strong signal to the investors community to make financial flows consistent with the temperature and adaptation goal of the Paris Agreement.
- For Austria, as EU incoming presidency, the significant increase from around EUR 40 mln to EUR 190 mln in climate finance provided in the years 2010 to 2016 were showcased as being in line with the Austrian Climate Finance Strategy setting the frame of Austria’s climate finance.

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Session II

Sustainable Finance: Aligning the financial system with sustainability criteria

This session looked at strategies to shift public and private finance to sustainable assets and discussed the progress on the integration of environmental, social and governance (ESG) criteria in asset management. The recommendations from the High-level Expert Group (HLEG) on Sustainable Finance as well as specific actions outlined in the respective EU Action Plan served as important points to anchor the discussion.

Main Findings

- Major financial players including asset managers, banks and insurance companies start recognizing addressing the topics of climate change and financing the energy transition can provide unique opportunities but associated risks need to be effectively managed.
- As opportunity, new or underserved client segments could be targeted (including retail or individual investors) that show affinity to sustainable finance outcomes including climate change.
- As for the launch of dedicated sustainable finance products, cooperation with multi-lateral institutions and development banks helps to increase initial acceptance and roll-out of innovative products like thematic funds or green bond strategies.
- Partnerships with other private sector entities including utility companies could serve to build up a pipeline of bankable projects in the field of sustainable finance.
- The demand for sustainability (ESG) research and data use is increasing and presents an important cornerstone of the EU Action Plan on Sustainable Finance. However, there is a need for coherence, further standardisation and definition of specific parameters (including on impact)
- Social criteria appear to be less in the focus but are equally important; alignment with Sustainable Development Goals (SDGs) on target level would be desirable.
- Managing risks stemming from climate change (in accordance with recommendations of the Task Force on Climate-related Disclosures (TFCD) is an important issue; carbon transition risk management and stranded assets exposure should be equally considered.
- Sophisticated regulations are a key tool to prepare financial markets for the future; supervisory institutions start including climate change risks at micro and macro levels using large quantitative data.
- While efforts on the national and EU level are crucial, future massive infrastructure programmes like the Chinese Belt & Road Programme must be aligned with sustainable finance criteria to achieve global goals as stated under the Paris Agreement or expressed by the SDGs.

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Session Outcomes

Session III

Involvement of the private sector in international and sustainable finance: Roles, partnerships and tools

This session explored promising partnerships be-tween the public and private sector actors in inter-national and sustainable finance, as well as the underlying needs. Promising tools to include the private sector have been discussed.

Main Findings

- Alignment of interests between private and public-sector actors in terms of investment and market focus, key priorities (risk, return, impact categories), due diligence practices, etc. are crucial to find common paths for cooperation.
- Complementing experience and strengths on both sides are an asset, sharing the responsibilities e.g. for sourcing the investment projects in developing countries (at low default rates) and for engaging investors in e.g. developed countries.
- Co-investment is crucial, to further align interest and incentives through assuming appropriate levels of risks by all partners.
- Financial opportunities can be harnessed through the participation in the development of dynamic financial sectors (e.g. for the "missing middle" SME segment) in emerging markets; however, higher country risks, and fund share price decrease through interest rate- and currency risks, as well as repayment delay and/or default need to be considered.
- Public funds can be used in (fund) financing structures as risk capital to mobilise private financing for global EE and RE projects in emerging markets. *GEEREF NeXt* is an example that will build on previous experience and involve the Green Climate Fund (GCF) as publicly funded anchor investor and source for technical assistance funds.
- Multi-lateral institutions can act as catalyst for sustainable finance products, such as Green Bonds, Climate Bonds or Climate Awareness Bonds, by setting examples for transparency, accountability and reliability; generating key data (e.g. bond yield curves), and contributing to industry working groups and the public debate (HLEG, Green Bond Principles, EU Action Plan: taxonomies on e.g. Green Bonds, bilateral dialogue with key sovereigns like China).
- Special partnerships and networks can effectively bridge between project developers on the ground in emerging markets creating investment-ready pipelines, making use of blending public and private financial resources, a lean organisation and ensuring aligned interests in the value chain (e.g. through appropriate incentive setting).
- Green Bonds (or Climate Bonds) are a key tool to access debt capital markets (i.e. private sector investors) to (re-)finance climate solutions at scale. While climate-relevant assets have been identified on all key sectors (such as energy, water, buildings, transport, etc.), RE and green buildings dominate the use of proceeds.
- The tool of Green Covered Bonds provides special incentives for investors due to the dual recourse structure (cover pool assets, issuing bank) as well as benefits in terms of lower funding costs. Green cover pool composition (projects) focus on green buildings (commercial and residential mortgages).

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Outcomes of the Discussions in the Break out groups

Two moderated *break-out groups* have been conducted in order to gather direct feed-back and inputs from the workshop participants by responding to key questions posed by the moderators. The session topics were a) Low-carbon and climate-resilient development – fostering implementation, and b) Sustainable Finance – moving ahead. The key findings are presented below.

Break-out Group I

Low-carbon and climate-resilient development: fostering implementation

Requirements and needs:

- Adequate sector policies to enable long-term infrastructure planning and implementation
- stable regulatory settings
- market-based mechanisms and incentives (such as carbon pricing through ETS or carbon tax to internalize costs of pollutants; green procurement, eliminating fuel subsidies
- strong governance and transparency
- de-risking of current infrastructure
- look at risk, return and impact in investment opportunities

Creating favourable conditions:

- through adequate data quality, modelling tools and metrics for adaption, as well as sector-specific
- research on "true" costs
- by integrating performance targets (e.g. as done by IFC), climate-proofing, ESG analysis and comparison of investment projects (e.g. through ranking)

Engaging the private sector:

- through raising awareness in financial sector (including banking agents)
- by fostering new partnerships
- through addressing the needs of retail investors
- through communicating adequately, including changing the narrative, changing the mind-set of stakeholders, putting positive examples in the spot-light, disseminate best practice examples

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Outcomes Break out groups

Break-out Group II

Sustainable Finance – moving ahead

Key drivers (motivations, opportunities) for personal and institutional engagement:

- Policy objectives (Paris Agreement & SDGs); be transformative; initiate a paradigm shift
- Support societal goals through business models (social entrepreneurs, etc.): new markets, new clients, new opportunities
- CSR (E&S) ambitions of corporates; support of the current business model (sustainability rating affects overall rating and thus refinancing costs)
- Promote low-carbon technologies and (switch to) new business models: changing from conventional to sustainable ones (e.g. conventional motors – electric drives)
- Positive communication with clients: climate and impact is easy to understand without financial background
- Inclusion of different players in line with "risk appetite" and loss absorption capacity: layered funds with risk buffer taken by donors
- Education on the new products still needed: distinguish sustainable from less sustainable ones (integrity)
- Retail investors as new client segment: savings available, low interest environment, client interest in sustainable issues not sufficiently addressed
- Further increase transparency in disclosing corporate performance through raising demand for ESG research
- Sustainable finance as a driver for long-term orientation of financial system
- Opportunity to promote "impact first" versus "finance or profit first"
- Raise money for *additional* projects with sustainable characteristics (as bankable projects will get financed anyway)
- Fulfil NGO donor expectations (government, philanthropic, etc.): positively influence their needs and interest
- Chance to avoid mistakes from the past, make sure that project fits needs of local people / buy-in from host countries

Main barriers that need to be resolved:

- Key policy issues (e.g. lack of meaningful carbon price)
- Short-term profit orientation
- Lack of standardization (and simplification) of most important factors, lack of data and measurements (and: who carries the cost?)

Comparability of financial products (e.g. ranking system or label (only one)

- Regulations: Adaptation of existing regulations that stand in the way (e.g. annual reporting requirements of pension funds)
- Lack of aligned interests and coordination: Who leads? Lack of alignment between donors, banks, end users
- Lack of champions on national level, within UN, within business community
- Stakeholder inclusion: national supervisory authorities (e.g. Austrian FMA) through adequate communication
- Lack of awareness and marketing for sustainable finance across civil society and financial business community
- Products and clients not addressed: e.g. retail investors
- Lack of liquidity (e.g. tradability) of funds to attract more institutional investors.

Achievements considered feasible over the next year:

- Policies: Raise ambition in climate targets in NDC-climate action plans through creating a positive atmosphere where developing countries like to contribute further; Art 6 PA progress on rules for private sector inclusion
- Specific regulations adapted or adopted, e.g. stress-testing, inclusion of sustainability criteria
- Communication: Taxonomy on Green Bonds, clear market standards established
- Financial institutions: Establish green and brown tagging in banks and going beyond carbon or CO_2
- Moving gradually from a Risk–Return to a 3-dimensional approach: Risk-Return Impact
- Clear process defined for asset management solutions: i) Definition of business case (market needs), ii) Definition of requirements, iii) find solutions
- Role for the government: clear commitment, concrete steps and actions defined (e.g. Austrian sovereign Green Bond for LC & CR infrastructure issued), concrete projects or pilots actions as showcases, new partnerships, Austrian EU presidency to contribute to SDG, set clear priorities,
- Innovative product creation: Green Bond under Art 6 PA, linking carbon trading and climate finance requirements to pay coupon payments, catering to e.g. to pension funds)


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