

OECD submission to the UNFCCC Standing Committee on Finance

The OECD provides this submission in response to the UNFCCC Standing Committee on Finance call for inputs on [“Information from Parties and stakeholders in the financial sector regarding ways to achieve Article 2, paragraph 1\(c\), of the Paris Agreement, including options for approaches and guidelines for Implementation”](#).

Article 2.1c calls for “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. Implementing Article 2.1c implies taking a holistic view on all types of investments and financing activities (public and private, in the real economy and financial markets, relating to flows and stocks, domestic and international), as well as on the range of public policy instruments, enabling conditions, and privately-led initiatives that have an effect on investment and financing decisions, volumes and/or patterns. In this context, the present submission highlights some of the critical topic areas addressed by OECD work that can support the development of approaches and guidelines for implementing Article 2.1c and achieving underlying climate goal.

Selected areas of OECD work that can support the development of approaches and guidelines for implementing Article 2.1c

Enhancing the credibility, accountability and integrity of financial sector climate commitments

Brief description

Financial institutions and investors are increasingly putting forward climate-related commitments and transition plans, including through a range of industry-led net zero coalitions, frameworks and methodologies. In turn, financial markets are beginning to integrate climate transition risks and opportunities into investment decision making. However, turning increased ambition into outcomes and real economy impacts remains a major challenge. Many of these efforts are developed and driven by the private sector as voluntary initiatives, rather than through concrete public policy levers, resulting in a lack of coverage of significant parts of the financial sector that may also choose not to adopt them. In addition, as highlighted by recent OECD analyses and guidance, there are significant risks of greenwashing stemming from inconsistent performance metrics, limited methodological transparency and partial data availability. A number of international processes, some of which government-sponsored or led, are attempting to close this gap. The OECD is supporting such efforts to improve the comparability, credibility and integrity of climate-related assessments relating to financial sector’s climate change commitments and transition plans, based on further analytical work as well as relevant standards such as those for Responsible Business Conduct, and by convening stakeholders across environmental and financial communities.

Selected publications

- Noels, J. and R. Jachnik (2022), "Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives", OECD Environment Working Papers,
- No. 200, OECD Publishing, Paris, <https://doi.org/10.1787/d12005e7-en>.

- OECD (2022), "Policy guidance on market practices to strengthen ESG investing and finance a climate transition", OECD Business and Finance Policy Papers, No. 13, OECD Publishing, Paris, <https://doi.org/10.1787/2c5b535c-en>.
- OECD (2022), "ESG ratings and climate transition: An assessment of the alignment of E pillar scores and metrics", OECD Business and Finance Policy Papers, No. 06, OECD Publishing, Paris, <https://doi.org/10.1787/2fa21143-en>.
- OECD (2022), OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/7c68a1ee-en>.
- OECD (2020), Developing Sustainable Finance Definitions and Taxonomies, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/134a2dbe-en>.
- OECD (2018), [Due Diligence Guidance for Responsible Business Conduct](#)
- OECD (2017), [Responsible business conduct for institutional investors Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#)

Recent events

- [Workshop on Metrics for Climate Transition and Net-Zero GHGs in Finance - Supporting climate policy goals and avoiding greenwashing](#) (February 2023)
- [Ministerial Meeting on Responsible Business Conduct](#) (February 2023)
- COP27 virtual side events [Finance for climate transition and climate alignment](#) and [How can sustainable and transition finance support the journey to net zero in Asia?](#) (November 2022)
- Climate alignment- and transition-related sessions at the virtual [OECD Forum on Green Finance and Investment](#) (October 2022)

Improving domestic enabling conditions for climate-consistent investments

Brief description

Mobilising and shifting investments for climate action requires both an enabling environment conducive to investment in general, as well as specific enabling conditions for low-carbon and climate-resilient investment. The latter implies designing and implementing ambitious and stable climate policies (including to internalise the cost of carbon emissions), as well as ensuring coherent and consistent signals across different policy areas, which traditionally do not take climate-related objectives into account, such as investment policy and promotion, competition, financial markets, taxation, innovation, and trade. In this context, relevant OECD policy frameworks, analyses and programmes provide a whole of government approach and specific recommendations to identify and implement the structural, financial and political changes needed to invest in and finance the climate transition, and more broadly align financial flows with climate policy goals. Concrete activities include the OECD Foreign Direct Investment (FDI) Qualities Recommendation and Policy Toolkit, as well as in-country work of the OECD Clean Energy Finance and Investment Mobilisation (CEFIM) Programme and Sustainable Infrastructure Programme in Asia (SIPA).

Selected publications

- OECD (2022), "Policies for improving FDI impacts on carbon emissions", in OECD (2022), FDI Qualities Policy Toolkit, OECD Publishing, Paris, <https://doi.org/10.1787/7ba74100-en>.
- OECD (2022), Recommendation of the Council on Foreign Direct Investment Qualities for Sustainable Development, <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0476>
- Mullan, M. and N. Ranger (2022), "Climate-resilient finance and investment: Framing paper", OECD Environment Working Papers, No. 196, OECD Publishing, Paris, <https://doi.org/10.1787/223ad3b9-en>
- OECD (2021), Clean Energy Finance and Investment Policy Review of Indonesia, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/0007dd9d-en>.
- OECD (2018), Developing Robust Project Pipelines for Low-Carbon Infrastructure, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/9789264307827-en>.

- OECD (2017), Investing in Climate, Investing in Growth, OECD Publishing, Paris, <https://doi.org/10.1787/9789264273528-en>.
- OECD (2015), Aligning Policies for a Low-carbon Economy, OECD Publishing, Paris, <https://doi.org/10.1787/9789264233294-en>.
- OECD (2015), Policy Guidance for Investment in Clean Energy Infrastructure: Expanding Access to Clean Energy for Green Growth and Development, OECD Publishing, Paris, <https://doi.org/10.1787/9789264212664-en>.
- OECD (2015), Policy Framework for Investment, 2015 Edition, OECD Publishing, Paris, <https://doi.org/10.1787/9789264208667-en>.

Recent events

- [FDI Qualities: Aligning Investment Frameworks for Green Growth](#), 4th Roundtable on Investment and Sustainable Development, 2 November 2023
- [Setting reforms in motion to boost sustainable investment](#), 5th Roundtable on Investment and Sustainable Development, 18 October 2022

Embedding climate considerations in international investment treaties

Brief description

Governments at the OECD have initiated the first major multilateral effort to consider climate policies for investment treaties. Significant government recognition of the importance of aligning investment treaties with the Paris Agreement and its article 2.1c finance flows provision is reflected in preliminary results from an OECD survey. OECD Secretariat analysis has noted that investment treaties are associated with extensive finance flows including through provision of a financial service akin to political risk insurance; grants of unique benefits to treaty-covered financial investors such as shareholders; and the availability of uncapped financial remedies against governments, enforceable worldwide. Finance flows are regularly linked with high-carbon activities: seven of the largest investment treaty awards (all for more than USD 1 billion) involve fossil fuels. Investment treaties both promote certain investment and dissuade certain government action. Ongoing work includes consideration of targeting treaty coverage of investment on climate grounds, helping treaties stimulate and at least not dissuade necessary climate action, and strengthening investment treaty contributions to the climate transition.

Selected publications

- Gaukrodger, D. (2022), [Investment treaties and climate change: The alignment of finance flows under the Paris Agreement](#) (Conference background paper)
- OECD (2016), [The impact of investment treaties on companies, shareholders and creditors](#), OECD Business and Finance Outlook, ch. 8
- [Survey of climate policies for investment treaties](#) (2022-2023)
- [Investment Treaties and Climate Change, OECD Public Consultation: Compilation of submissions](#) (January - March 2022)
- Background note on investment treaties: [Market access for climate-friendly investment and recent climate policies on the sectoral scope of investment protection](#) (2023)
- OECD (2018), [Investment Treaty Conference agenda and background material: Treaty shopping and tools for treaty reform](#), pp. 3-5, 11-15

Recent events

- [Annual Conference on Investment Treaties - Investment Treaties, the Paris Agreement and Net Zero: Towards Alignment?](#) (April 2023)
- [Conference on investment treaties and climate change: Paris Agreement and Net Zero alignment](#) (May 2022)

Modernising export credit rules to better support the climate transition

Brief description

Governments provide officially supported export credits through Export Credit Agencies in support of national exporters competing for overseas sales. The OECD provides a forum for exchanging information on Members' export credits systems and business activities and for discussing and coordinating national export credits policies relating to good governance issues. The OECD is also a forum for maintaining, developing and monitoring the financial disciplines for export credits, which are contained within the Arrangement on Officially Supported Export Credits (the "Arrangement"). These disciplines stipulate the most generous financial terms and conditions that Members may offer when providing officially supported export credits. Climate-related considerations are increasingly embedded in the Arrangement, through both ending or limiting support for unabated coal fired power plants, and the expansion of categories of climate friendly activities.

Selected publications

- [Agreement to expand export credit support for climate-friendly and green projects](#) (April 2023)
- [Agreement to end export credit support for unabated coal-fired power plants](#) (October 2021)

Aligning development co-operation and climate action

Brief description

Development co-operation aims to accelerate progress towards Sustainable Development Goals in developing countries and improve their financing. In this context, the OECD Development Assistance Committee (DAC) helps set international principles and standards for development co-operation, as well as monitors official development assistance (ODA) and development finance more broadly, including for climate-related activities. The Paris Agreement's three main goals as laid out in its Article 2.1 complement the 2030 Agenda and Sustainable Development Goal 13 on climate change. To align with these goals, development co-operation providers should take priority actions at home (including in donor countries' broader international activities), in developing countries (in their work with local governments), and at the system level (global development architecture). In this context, the DAC is currently working to develop an approach for measuring development finance in support of to net-zero transitions, as well as a broader DAC approach to enabling net-zero transitions in developing countries.

Selected publications

- [OECD Development Assistance Committee commits to align development co-operation with the goals of the Paris Agreement](#) (October 2021)
- OECD (2019), *Aligning Development Co-operation and Climate Action: The Only Way Forward*, The Development Dimension, OECD Publishing, Paris, <https://doi.org/10.1787/5099ad91-en>.