9 – INTERNATIONAL LEADERSHIP

Overarching recommendations

> Make finance a priority for Europe's international diplomacy in 2021 and ensure that Europe takes a leadership role to drive international reform at the G7 and G20, and ahead of the COP26 climate talks.

> The European Commission and Member States should use the International Platform on Sustainable Finance to co-create new international financial norms, (for example, on taxonomy, disclosure, green bonds and financial sector transition plans) and should enrol more major economies as members of the Platform.

> The European Commission and Member States should make reform of public banks and development finance institutions in support of green recovery and systemic resilience a key pillar of their international finance diplomacy.

Europe has the opportunity to fundamentally shape the international financial system of the future over the next 10 years, but this will require making international cooperation and leadership a clear priority under this Commission

The COVID-19 pandemic has shown that a health risk, believed to have originated from inadequate handling of environmental risk in Asia, can cascade to create widespread social, economic and financial impacts in Europe and the rest of the world. Climate change presents the prospect of future cascading impacts, as do other environmental and biodiversity risks. A more sustainable financial system will be essential to enable global resilience to future crises.

European actors are established international leaders in setting sustainable finance norms. However, significant progress is still required to reform the international financial system which is currently not aligned with climate goals, let alone wider environmental and social goals. Europe has a proven track record in developing international best practices and coordinating with other regions in harmonising and co-developing standards. This is a diplomatic skill that it will need to continue to invest in if the financial reforms it makes within its borders are to be viable and effective long-term. In the end the European Green Deal will require systemic financial reform globally, and not just within Europe.

Leading global efforts to drive financial reform for a global green recovery

In coming months and years all countries will need to build robust green recovery packages and prepare the foundations for the investment needs for the climate transition.[395] The G20 countries are particularly crucial to meet the Paris Agreement given the impacts of their economies on the world, being responsible for 80% of global greenhouse gas emissions.[396] As the world's top emitter and a major influencer over other countries via the Belt and Road Initiative, China is of particular importance.[397]

As well as focusing on their domestic recovery plans, G20 countries must also respond to the needs of developing countries.[398] This brings many challenges. On one hand, assistance provided to developing countries to assist recovery will risk locking in high-carbon infrastructure unless it specifically supports a low-carbon development pathway. At the same time, COVID has created debt repayment challenges for many countries and this may prevent them from access sufficient finance to deal with climate, environmental and social challenges.[399]

The European Green Deal Communication set out how the EU must develop a stronger 'green deal diplomacy' focused on supporting other countries to pursue sustainable development. The EU will also promote a coordinated multilateral response, in partnership with the United Nations, International Financial Institutions, as well as the G7 and the G20.[400] In the context of the pandemic

[395] The Coalition of Finance Ministers for Climate Action (2020) **Better Recovery, Better World**

[396] Climate Transparency (2019) **Brown to Green: The G20 transition towards a net-zero emissions economy**

[397] Climateworks Foundation (2019) **Decarbonizing the Belt and Road**

[398] E3G (2020) **Recovering better: A green, equitable and resilient recovery from coronavirus**

[399] Finance Watch (2020) **Debt sustainability and a sustainable COVID recovery**

[400] European Commission (2020) **Coronavirus: EU global response to fight the pandemic**

and the backdrop of the climate emergency, the EU's diplomatic role has become even more important.

The 2021 UK and Italian presidencies of the G7 and G20 and their joint Presidency of COP26 will present a unique opportunity for the European Commission and Member States to drive sustainable finance forward on the international stage. Perceptions of success or failure at COP26 will rest on whether key financial issues have been successfully negotiated. Debt restructuring, fossil fuel subsidies, sustainable infrastructure and management of climate risk are all areas where key diplomatic wins could be achieved. The European Union should prioritise finding internationally agreed solutions to these issues when negotiating as a bloc.

The European Commission and Member States should make finance a diplomatic priority in 2021 and should lead global efforts to drive international financial reform for global green recovery, supporting Italy and the United Kingdom in their Presidencies of COP26, the G7 and the G20.

- Key diplomatic outcomes for 2021 could include the integration of sustainability goals into debt restructuring frameworks, the agreement of ambitious standards for green infrastructure and an end to public finance for fossil fuel projects.
- Europe should take a global lead on reforms that promote financial resilience, including mandatory climate risk reporting and climate transition plans for companies, reform of fossil fuel subsidies and enforcement of sustainable supply chain standards.
- The EU should play a full part in negotiations at COP26 to ensure that financial outcomes are secured, including meeting the $100 billion climate finance target and negotiating a post-2025 finance goal together with satisfactory outcomes on Article 6 and on Loss and Damage.

Showing leadership through international finance coalitions

Major systemic reforms are needed to mainstream sustainability in the financial system and lead to more inclusive and fairer set of global financial rules. Currently, the adoption of climate stress tests and corporate disclosure in line with the Task Force on Climate-related Financial Disclosures recommendations remain limited. Despite this, key changes are occurring globally. Investors have over $80 trillion of investor assets committing to integrate ESG through the Principles for Responsible Investment and more than $47 trillion of banking assets committed through the Principles for Responsible Banking.[401] Of the central banks and financial regulators, 65 have committed to take action on climate risk through the Network for Greening the Financial System.[402] Sustainable finance has also become a priority for the world's finance ministers.[403]

Taxonomies characterising investments that are aligned with long-term climate, biodiversity and SDG-compatible trajectories are essential to ensure that investors are working towards sustainability. Globally, a number of countries are in the process of developing such taxonomies, such as China, Japan, Malaysia, Europe, Canada and South Africa.[404] The World Bank also launched green taxonomy development guidelines for emerging markets to develop their own taxonomy.[405] Applying these taxonomies will help investors reorient financial flows towards activities that are sustainable and likely to build resilience to climate, environmental and social risks, and away from unsustainable activities.

The European Commission's Sustainable Finance Action Plan set out its intention for Europe to step into the role of global leader on sustainable development, following the decision of the United States to withdraw from the 2015 Paris Agreement, while also calling on other players to take decisive action to ensure

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401 PRI (2020) **UN-Convened Net-Zero Asset Owner Alliance**; UNEP (2020) **Principles for Responsible Banking**

402 NGFS (2020) **Network for Greening the Financial System**

403 Robins, N. (2020) **Earth Day 50: Sustainable finance: the road ahead**

404 Central Banking (2020) **China moves towards single 'green finance' taxonomy**; Responsible Investor (2020) **Japanese climate experts propose national "transition taxonomy" for finance**; ESG Clarity (2020) **Malaysia targets green taxonomy**; TEG (2020) **Taxonomy: Final report of the Technical Expert Group on Sustainable Finance**; Responsible Investor (2020) **Canada moves ahead on creating green taxonomy for resource-heavy economies**; Republic of South Africa (2020) **Financing a Sustainable Economy**

405 Environmental Finance (2020) **World Bank launches EM green taxonomy development guidelines**

a coordinated global effort.[406] The Sustainable Finance Action Plan has caught the attention of finance ministries, financial actors and institutions involved in managing the financial system across the globe, particularly through the creation of the EU taxonomy of sustainable activities. The European Green Deal Communication has also recognised the need for the EU to be at the forefront of coordinating international efforts towards building a coherent sustainable financial system.[407]

The EU's commitments to promote sustainable finance globally have more recently been supported by the EU-led initiative to create the International Platform on Sustainable Finance in October 2019.[408] This was set up as a multilateral forum for public authorities in charge of developing environmentally sustainable finance initiatives, including finance and economy ministries, central banks and supervisory & regulatory authorities, to promote integrated markets for environmentally sustainable investment at a global level. A first public report on the work of the International Platform on Sustainable Finance Platform will be published in Autumn 2020. With the addition of more countries there is significant potential for this platform to support global progress.

Sixteen of the EU's Member States have also joined the Coalition of Finance Ministers for Climate Action launched in April 2019 and have endorsed the Helsinki principles.[409] In addition, 17 of the EU's Member States are represented in the Network of Central Banks and Supervisors for Greening the Financial System launched at the Paris One Planet Summit in December 2017.[410] The involvement of key European actors, institutions and governments has been central to progress made in these fora. However, to date these various sustainable finance initiatives have operated in siloes. There is an opportunity for more collaboration to ensure common approaches and create synergies across the platforms.

[406] European Commission (2018) **Action Plan: Financing Sustainable Growth**

[407] European Commission (2019) **The European Green Deal**

[408] European Commission (2020) **International Platform on Sustainable Finance**

[409] Finance Ministers for Climate (2020) **The Coalition of Finance Ministers for Climate Action**

[410] Network of Central Banks and Supervisors for Greening the Financial System (2020) **Membership**

The European Commission should use the International Platform for Sustainable Finance to co-create new financial norms in major geographies.

> The European Commission should work through the International Platform on Sustainable Finance to ensure that there is harmonisation across sustainable finance initiatives at global level, such as the taxonomy, corporate disclosures and climate stress testing.

> The European Commission should also collaborate with related initiatives including the Coalition of Finance Ministers for Climate Action and the Sustainable Banking Network.

> The EU should encourage adoption of new financial norms in the European Neighbourhood and provide technical assistance to develop impact-oriented sustainable finance regulation in developing countries.

The European Commission should facilitate international monitoring of sustainable and unsustainable financial flows.

> Building on the observatory functions to be carried out by the Platform on Sustainable Finance, the European Commission should actively promote equivalent efforts at international level to measure and monitor the sustainability of financial flows, in order to track global progress towards alignment of the financial system with the Paris Agreement and implementation of Article 2.1c.

Member States should show leadership within the Coalition of Finance Ministers for Climate Action.

> Finance ministers from European Member States should all be directly involved in this coalition and should attend its meetings in person.

> Through the Coalition, Member States should work towards the greening of public finances at national level within the EU, as well as the mainstreaming of national financing strategies in third geographies building on the example of the European Green Deal.

> The European Commission and ECOFIN should cooperate with the Coalition to identify best practices in greening public finances and fiscal governance.

Greening export finance

Public finance support for trade and investment support outside the EU is not consistently aligned with the Paris Agreement.[411] Many EU Export Credit Agencies have taken steps to ban export credit support for coal, however the majority of EU export financing for energy overseas still supports oil and gas. As private financial institutions slowly shift away from supporting fossil fuels there is a risk that Expert Credit Agencies will fill that credit void and pick up those transactions. In November 2019 the European Parliament issued a resolution calling the Member States to apply the same principle applied by the European Investment Bank when it comes to export credits.[412]

Export Credit Agencies have a significant role to play in stabilising the economy during the COVID-19 recovery as banking and insurance markets contract. The scope of their portfolios and geographies are changing, for example, some Export Credit Agencies have been mandated to support domestic markets. This is the case with both the Canadian and Dutch export credit agencies.[413] However, COVID-related changes to Export Credit Agency mandates, remits

[411] FERN and ECA-Watch Europe (2014) **A civil society assessment of Export Credit Agencies' compliance with EU Regulation**; Bankwatch Network (2017) **ECAs go to market: A critical review of transparency and sustainability at seven export credit agencies in Central and Eastern Europe**

[412] European Parliament (2019) **European Parliament resolution of 28 November 2019 on the 2019 UN Climate Change Conference in Madrid, Spain (COP 25)**

[413] Friends of the Earth US (2020) **ECAs, Covid and Climate: Recommendations to Ensure that Economic Support Protects People and the Planet**

and scope are now at risk of taking place without adequate parliamentary scrutiny. As Export Credit Agencies move into administering medium term transactions during the recovery, there is a risk that this could lead to increased support for fossil fuel projects.[414]

The temporary framework for state aid to support the economy includes short-term export credit insurance, meaning that there is potential for tension between the European Green Deal and promotion and protection of European corporations.[415] Export Credit Agencies could be encouraged to show leadership and ambition in redirecting public financial flows towards the development of resilient and low carbon societies. The obligation to provide green and resilient stimulus could be mandated as the COVID-19 response phase shifts from emergency support towards supporting economic recovery.

Export Credit Agencies are regulated through the Export Credit Agency Regulation[416] in which the EU has transposed the OECD's Arrangement on Officially Supported Export Credits[417] into legally binding EU regulation. The OECD Arrangement includes guidelines that restrict export credit for coal-fired power plants, the EU law goes a little further than the Arrangement as it also requires Export Credit Agencies to adhere to general provision for external action of the EU. These include the protection of human rights, the promotion of democracy and the fight against climate change. France, Sweden and Denmark have adopted unilateral policies on coal that go beyond the OECD arrangement with tighter or full restrictions.[418]

[414] Friends of the Earth US (2020) **ECAs, Covid and Climate: Recommendations to Ensure that Economic Support Protects People and the Planet**

[415] European Commission (2020) **State aid: Commission adopts Temporary Framework to enable Member States to further support the economy in the COVID-19 outbreak**

[416] European Parliament and Council of the EU (2011) **ECA Regulation**

[417] OECD (2020) **Arrangement on Officially Supported Export Credits**

[418] Perspective climate group (2020) **Study on external and internal climate change policies for export credit and insurance agencies** page 27; VedvarendeEnergi (2020) **VedvarendeEnergi opfordrer erhvervsministeren til at følge gode ord op med mere handling for grøn eksport**

Country/ Institution	Policies restricting support for fossil fuels
Denmark: Eksport Kredit Fonden (EKF)	The EKF does not provide direct support for coal and has no explicit policies on the screening for coal and related infrastructure. In December 2019, the government established a 'Green Future Fund' – with a majority to be administered by EKF – which excludes financing for fossil fuels and coal heavy utilities, including enterprises whose revenues from coal extraction or coal-power generation accounts for more than 20%. The government further reiterated in early 2020 its support for the phase-out of export credit for fossil fuel and associated facilities, including logistics, in response to parliamentary inquiries on the OECD CSFU revision.[419]
France: Bpifrance Assurance Export	France has an explicit ban on export credit for coal-fired power plants, shale oil and gas and routine flaring. Export finance may not be granted for operations relating to research, exploitation and production of coal and the production of energy from coal, without prejudice to operations aimed at reducing environmental impact of existing installations, without increasing their lifetime or production capacity.[420]
Netherlands: Atradius Dutch State Business	Since 2014, the Dutch government has a policy to not support coal projects overseas via its ECA. It is actively working on increasing support for 'green' projects.[421] It is still a heavy supporter of oil and gas.
Sweden: The Swedish Export Credit Corporation (SEK) and the Swedish Export Credit Agency (EKN)	Ban on export credits for fossil fuel exploration and extraction by 2022 including for example, mining and construction machinery, trucks, dump trucks and wheel loaders, drilling equipment, where the purpose is to use these for the extraction of coal and oil or gas. SEK has joined the Fossil Free Sweden Initiative and has limited lending to oil, gas, and coal to five percent of its total lending. EKN has ceased support for coal projects and mining including for example, mining and construction machinery, trucks, dump trucks and wheel loaders, drilling equipment, excavators, where the purpose is to use these for the extraction of coal.[422]

[419] VedvarendeEnergi (2020) **VedvarendeEnergi opfordrer erhvervsministeren til at følge gode ord op med mere handling for grøn eksport**

[420] Perspective climate group (2020) **Study on external and internal climate change policies for export credit and insurance agencies** page 27

[421] Perspective climate group (2020) **Study on external and internal climate change policies for export credit and insurance agencies** page 34 and 35

[422] Perspective climate group (2020) **Study on external and internal climate change policies for export credit and insurance agencies** page 38 and 39

As part of the Export Credit Agency Regulation, Member States are required to send an Annual Activity Report about export credit financing to the European Commission, based on which the European Commission produces an annual review.[423] The European Commission has reported full compliance with EU objectives and obligations. This has been contested in relation to human rights and the environment.[424] In particular, the information provided by Export Credit Agencies is currently inadequate to assess their compliance with the EU's climate objectives. It is not clear whether they have adopted targets or roadmaps to meet Paris Agreement commitments, and these commitments do not seem to be embedded in their policies.[425]

The European Commission should mandate national Export Credit Agencies (ECAs) to disclose against the EU taxonomy and to replicate the European Investment Bank's Energy Lending Policy in their own policies.

> The EU should set out rules to incentivise a phase out of export credit support for fossil fuels, and instead help green the portfolios of Export Credit Agencies. Export Credit Agencies should apply 'Do No Harm' stress tests to all export credit finance and integrate climate-related financial risks into investment decision-making.

> The EU must also improve its reporting template to capture climate risk exposure of Export Credit Agencies and complete data on their support for fossil fuel projects overseas. Better reporting would greatly increase the transparency of Export Credit Agencies and help the EU to take a more active stance on scrutinising their support for energy overseas. Reporting should be aligned with the Task Force on Climate-related Financial Disclosures recommendations and the EU taxonomy.

[423] VOXEU (2020) **Regulating under the radar: official export credit support**

[424] European Ombudsman (2016) **Recommendation of the European Ombudsman in case 212/2016/JN on the European Commission's annual reviewing of Member States' export credit agencies**

[425] FERN and ECA-Watch Europe (2014) **A civil society assessment of Export Credit Agencies' compliance with EU Regulation**; Bankwatch Network (2017) **ECAs go to market: A critical review of transparency and sustainability at seven export credit agencies in Central and Eastern Europe**

Supporting Europe’s finance goals through development finance

The European Green Deal Investment Plan called for engaging with international and national financial institutions with the aim of aligning their activities with the European Green Deal objectives.[426] The role of public finance institutions is more crucial than ever in the COVID-19 recovery since they have become key providers of counter-cyclical financing to both the private and the public sector and can provide the large sums of money that will be necessary to finance the climate transition. Globally, eleven multilateral development banks have pledged to raise annual climate finance to $175 billion by 2025.[427]

In particular, the European Investment Bank has a unique role to play supporting the EU’s Green Deal Diplomacy. In November 2019, it announced a revised Energy Lending Policy, which foresees the phasing out of the support to energy projects reliant on fossil fuels after end of 2021.[428] This delivered on the earlier EU Finance Minister (ECOFIN) Council conclusions which stated that they “encourage[d] the MDBs to adopt responsible investment policies and to phase out financing of fossil fuel projects, in particular those using solid fossil fuels, taking into account the sustainable development, and energy needs, including energy security, of partner countries”.[429]

The European Investment Bank will now turn this ambition into reality by developing its Climate Bank Roadmap to guide its transition. The European Investment Bank plays an important role for the EU since it is wholly owned by EU Member States, unlike other multilateral development banks such as the World Bank Group or the European Bank for Reconstruction and Development, of which EU Member States are only partial shareholders.[430] The difference in shareholding has resulted in the European Investment Bank to have increasingly ambitious policies on climate change in comparison to its peers, and to have taken on a real leadership role in this era of challenging climate geopolitics.

Collaboration on climate change between European MDBs and DFIs is important as many differences of approach remain. For example, not all banks have

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[426] European Commission (2020) **European Green Deal Investment Plan**

[427] Bennett V. (2019) **MDBs pledge to join forces to raise annual climate finance to $175 bn by 2025**

[428] European Investment Bank (2019) **EU Bank launches ambitious new climate strategy and Energy Lending Policy**

[429] ECOFIN (2019) **Council conclusions November 2019**

[430] E3G (2020) **The European Investment Bank: Becoming the EU Climate Bank**

accepted that new gas related infrastructure is not compatible with climate targets, although the European Investment Bank's Energy Lending Policy is setting a leading example to others. In this context, the European Commission published its planned architecture for the EU's external investment in December 2018, which recognised the need for more cooperation and synergies among European multilateral development banks and development finance institutions.[431] The High Level Group of Wise Persons on the European Financial Architecture for Development was established in April 2019 and published a report in December 2019 demonstrating that there remain systemic issues related to the EU architecture for investment.[432]

The European Green Deal Communication calls for engagement with third countries on climate issues and reinforcing existing initiatives. These include ending global fossil fuel subsidies, phasing-out financing by multilateral institutions of fossil fuel infrastructure, strengthening sustainable financing and phasing out all new coal plant construction.[433] China is critically important due to its influence through the Belt and Road Initiative. In particular, China Development Bank is the largest public bank worldwide and an important lender internationally. This is an example of an area where the EU could seek to have more strategic engagement. However, its heavy investments in coal have outweighed its investments in clean energy.[434] The European Green Deal Communication also calls for working with global partners to increase resilience to prevent climate and environmental challenges from becoming sources of conflict and support a just transition globally.

In order to encourage sustainable investments in partner countries, the EU has merged several financial instruments for cooperation and development into the Neighbourhood, Development and International Cooperation Instrument based on the European Fund for Sustainable Development Plus, a new External Action Guarantee of up to €60 billion expected to leverage up to half a trillion euro in investments, and financial assistance. To increase investments in climate resilience**,** it relies on a demand-driven approach through its implementing partners, which include the European Investment Bank, European Bank for Reconstruction and Development and development finance institutions.

[431] European Commission (2018) **Towards a more efficient financial architecture for investment outside the European Union**

[432] Council of the EU (2019) **The future of the European financial architecture for development**

[433] European Commission (2019) **The European Green Deal**

[434] E3G (2019) **Banking on Asia**

In terms of immediate neighbours, the European Green Deal Communication calls for developing climate, energy, and environmental partnerships with countries in the Southern Neighbourhood and the Eastern Partnership. In particular, the countries of the Southern Neighbourhood, which refers to North Africa and the Eastern Mediterranean, represent some of the world's most vulnerable countries to climate change.[435] North African countries are already some of the largest recipients of the European Fund for Sustainable Development.[436] However, there is a need for more strategic approaches to investment to address the risks of instability due to climate change.[437]

The European Green Deal Communication also calls for unlocking Africa's potential to make rapid progress towards a green economy, in terms of energy and efficiency, food systems, smart cities, and nature-based solutions. The more recent Commission communication *Towards a Comprehensive Strategy with Africa* specifically names the green transition and sustainable growth as priorities for partnership.[438] It includes a commitment to support African countries with their Nationally Determined Contributions, long-term strategies, and national adaptation plans, implying a role for the European Investment Bank, the European Bank for Reconstruction and Development and development finance institutions in devising financing strategies to mobilise the necessary capital.

The European Commission and Member States should make reform of public banks and development finance institutions in support of green recovery and systemic resilience a key pillar of their international finance diplomacy.

> Building on the ongoing reform of the European Investment Bank to become an EU climate bank, European institutions should promote this model to other countries. Key attributes for promotion are full Paris alignment across all lending sectors and all parts of the bank and the mobilisation of private finance at scale through public-private

[435] E3G (2013) **Underpinning the MENA Democratic Transition: Delivering Climate, Energy, and Resource Security**

[436] European Commission (2018) **The European Fund for Sustainable Development: 2018 Operational Report**

[437] E3G (2018) **MENA Stability in a Changing Climate: A Transatlantic Agenda on Preventive Investment**

[438] European Commission (2020) **Towards a comprehensive Strategy with Africa**

partnerships. Becoming a climate bank should mean that climate change takes central stage in a bank's overarching strategy.[439]

> The European Commission should develop an Action Plan to engage strategically to support the creation of project pipelines and financing of sustainable activities in developing countries and emerging markets. This can be achieved through coordination between DG DEVCO, the European Investment Bank, the European Bank for Reconstruction and Development and EU development finance institutions to develop tailored strategies to engage and promote sustainable development pathways and increase systemic resilience.

> A priority for the Action Plan should be to develop a joined-up approach to private sector mobilisation by non-EU multilateral development banks and development finance institutions – notably the African Development Bank and other African public finance institutions and China Development Bank which is the largest public bank worldwide and an important lender internationally through the Belt and Road Initiative.

> European Member States are key shareholders in multilateral public finance institutions and should work together for common goals. More coordination of their positions on the Boards of multilateral public finance institutions could be transformational in increasing the EU's influence in this space. The EEAS and DG DEVCO could consider whether its staff and delegations have a role in facilitating this coordination.

> The provision of counter-cyclical investment for a green recovery and systemic resilience should be a key aim of coordination between European shareholders in multilateral public finance institutions. Multilateral development banks and development finance institutions should be encouraged to work at the system level rather than project level, e.g. by assisting countries to adopt long-term strategies for financing sustainability and resilience.

[439] More information on E3G's vision for the EIB as a climate bank can be found in E3G (2020) **The European Investment Bank: Becoming the EU climate bank**