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Measures of sustainable finance in the international standards for macroeconomic statistics[1]

S Barahona,
Organisation for Economic Co-operation and Development

[1] This contribution was prepared for the workshop. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of the Republic of Türkiye, the BIS, the IFC or the other central banks and institutions represented at the event.

Measures of Sustainable Finance in the International Standards for Macroeconomic Statistics

Sarah Barahona
Head of National Accounts Division
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What this presentation will cover

- Background:
  - Measuring the volume of climate finance – why is it important?
  - Updates of the international standards for macroeconomic statistics
- What will change in the 2025 System of National Accounts (SNA) and the 7th Balance of Payments Manual (BPM7)
- Linking up with the work of the third G20 Data Gaps Initiative (DGI-3) Recommendation 4
- Principles and definitions

Background

Measuring the volume of climate finance – why is it important?

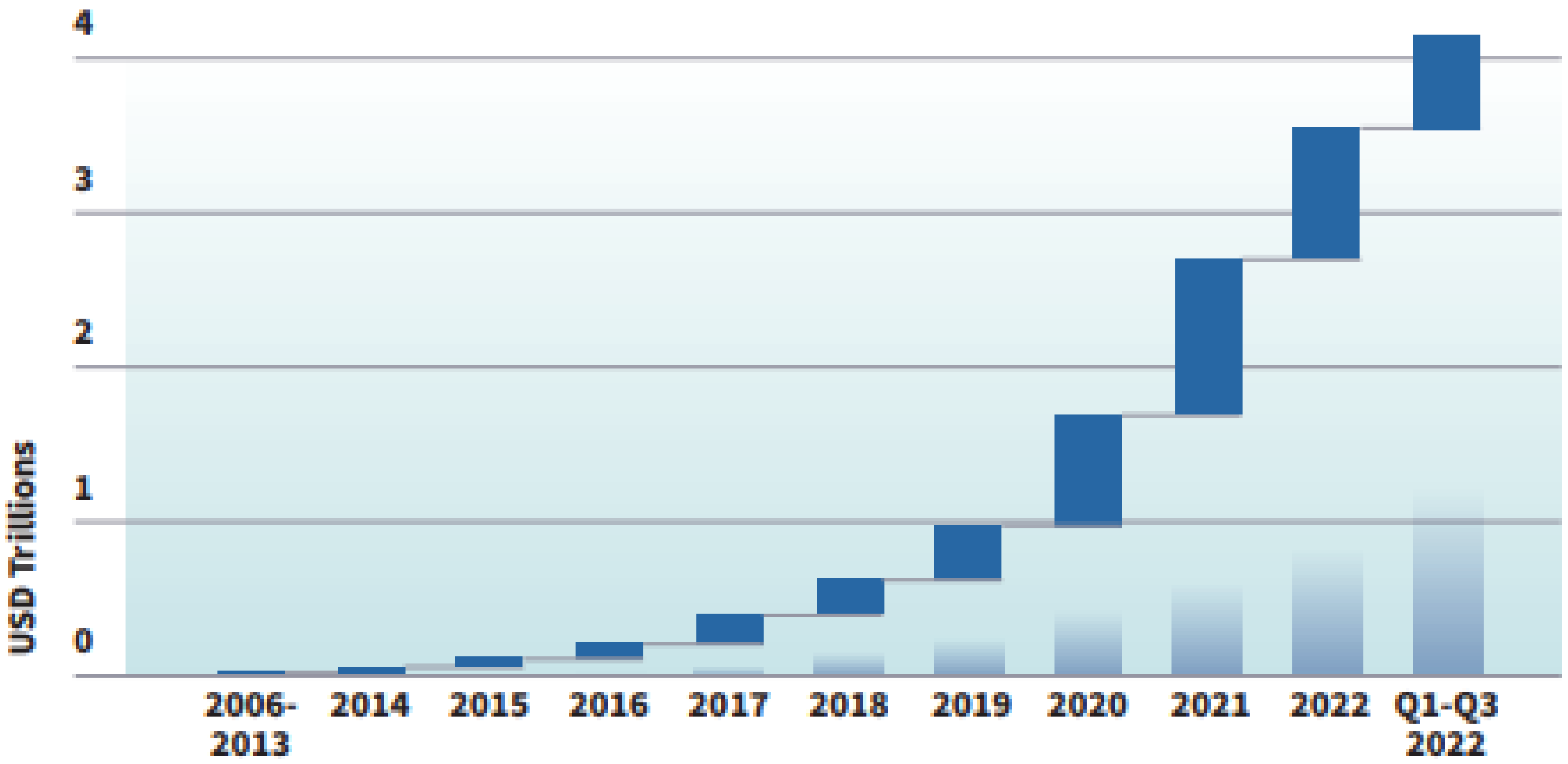
- Sustainable finance (or climate finance) is about funding activities that actively contribute to sustainable economic outcomes, for example the transition to low-carbon economies

- The 2015 Paris Agreement led to rapid growth in demand for sustainable finance, especially green bonds

- Policy makers need to know how much is being invested (availability of finance) to inform decisions in this area

- At present, we have no official estimates of how much of total debt securities, loans, equities (including listed shares) and investment fund shares on countries' balance sheets is 'sustainable' or 'green'

Cumulative ESG* debt securities at the end of 2023-Q3 – USD 4.2 trillion



* ESG = Environment, Social and Governance – or, in the CBI source: “Aligned GSS+ debt”

Source: Climate Bonds Initiative (CBI)

Scorecard: GSS+ debt recorded by Climate Bonds

	Q3 2023		2023 YTD		Cumulative since 2006	
	USDbn	% total	USDbn	% total	USDbn	% total
Green	110.6	65	415.0	67	2613.0	62
Social	27.4	16	95.8	16	762.7	19
Sustainability	22.1	13	88.8	14	764.2	18
SLB	8.6	5	16.8	3	42.5	1
Transition	0.7	0.4%	1.7	0.3	12.7	0.3
Total	**169.5**	**100**	**618.2**	**100**	**4228.1**	**100**

Source: CBI Summary 2023-Q3

Updates of the international standards

- The international standards provide a set of accounts for countries and produce estimates of (for example):
  - Economic growth (measured by GDP)
  - Trade and investment between countries
- The manuals for the SNA and BPM were last updated in 2008
- The current update began in 2020 and the UN Statistical Commission is expected to endorse the revised standards in March 2025
- A key aim of the update is to make sure the standards address the big policy questions of today such as environment and climate change, and more specifically their interplay with countries' economies

Updates of the international standards

- The SNA 2025 will provide more information on land and other natural resources such as oil and gas, renewable energy and biological resources - measuring Natural Capital stocks and answering questions like:

    - How much of a country's energy stocks is non-renewable (e.g. oil and gas) vs. renewables and how is the balance changing over time?

    - What is the impact on economic growth of depletion of natural capital?

- The OECD has established an **Expert Group on Natural Capital*** to produce implementation guidance for the 2025 SNA – it is looking at sub-soil assets, biological resources (e.g. timber), renewables, estimation methods

What will change in the 2025 SNA and BPM7?

Agreement to include official estimates of sustainable finance

- On 20th February, the Advisory Expert Group on National Accounts (AEG) – the body that agrees the changes for the SNA update – and the IMF Balance of Payments Committee (BOPCOM), in a joint meeting, **endorsed** the final proposal asking countries to report ESG and green financial instruments (debt securities, loans, equities and investment fund shares) as separate lines in the accounts

- In the 2025 SNA, ESG and green financial instruments will appear in the **core** financial accounts (flows) and balance sheets (stocks) as '*of which*' lines

- For the BPM7, they will appear in a **supplementary table** in Annex 14

AF	Financial assets and liabilities (National Accounts)
AF.3	**Debt securities**
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities
AF.4	**Loans**
	Of which: ESG loans
	Of which: Green loans
AF.5	**Equity and investment fund shares**
AF.51	**Equity**
	Of which: ESG equity
	Of which: Green equity
AF.52	**Investment fund shares**
	Of which: ESG investment fund shares
	Of which: Green investment fund shares

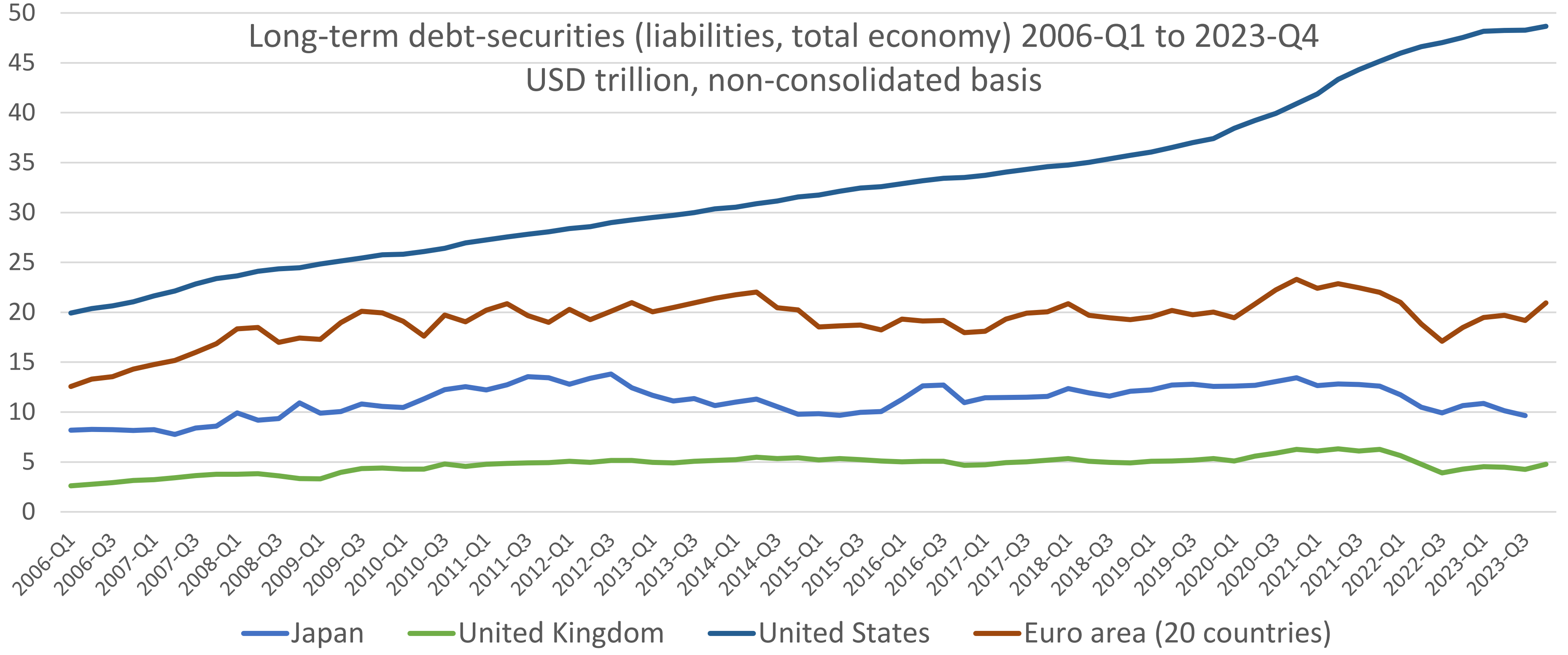
1	**Direct Investment (BOP and IIP)**
1.1	**Equity and investment fund shares**
	Of which: ESG equity/investment fund shares
	Of which: Green equity/investment fund shares
1.2	Debt Instruments
1.2.0.1	**Debt Securities**
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities

2	**Portfolio Investment (BOP and IIP)**
2.1	**Equity and investment fund shares**
	Of which: ESG equity/investment fund shares
	Of which: Green equity/investment fund shares
2.2	**Debt Securities**
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities

4	**Other Investment (BOP and IIP)**
4.3	**Loans**
	Of which: ESG loans
	Of which: Green loans

What will this look like in official statistics?

- In the national accounts balance sheets for example, in future there will be time series for ESG and green financial instruments *in addition to the **totals** that are currently available*:



Linking up with the work of DGI-3 Recommendation 4

DGI-3 Recommendation 4: Climate Finance

- Task Teams of the third G20 Data Gaps Initiative started work in early 2023
- The DGI-3 Recommendation 4 Task Team is coordinated by the BIS, ECB and IMF and is working with countries to produce estimates (by end-2025 and end-2027) on:
  - ✓ Green debt securities
  - ✓ Sustainability debt securities
  - ✓ Sustainability-linked debt securities
  - ✓ Green listed shares
- This data collection will be a primary source for many statistical producers to start populating the new lines in the 2025 SNA and BOP/IIP
- The DGI-3 Recommendation 4 approach to collecting securities data and the requirements of the 2025 SNA and BPM7 are well aligned, as both sides have worked together on the principles and definitions

Principles and definitions

General principles

- **ESG** finance is finance for "activities or projects that sustain or improve the condition of the environment or society or governance practices" (this is deliberately a broad concept)
- **Green** finance is finance for "activities or projects that sustain or improve the condition of the environment"
- The general principle for establishing greenness is a positive contribution to the environment (rather than 'do no harm')
- What is the *perspective* used to assess whether something is ESG or green?
  - Most debt securities: the use of proceeds raised with the financial instrument
  - Equity: the corporate revenues generated by the financing transaction
  - Loans: revenue approach (business loans)/proceeds approach (household loans)
  - Sustainability-linked debt securities, investment fund shares: achieving certain objectives or performance targets

Taxonomies, labelling and certification

- There will **not** be a single taxonomy for sustainable finance activities in all countries, although the development of official taxonomies is encouraged
- Both public and private standards may be used
- ESG and green instruments may be included on the basis of:
  a) Self-labelling, where the issuing entity decides on the appropriate ESG or green classification (no second party opinion or SPO, and no certification)
  b) Second Party Opinion (SPO), where a trusted entity provides the ESG or green label (but no certification)
  c) Certification, where, in the presence of standards, a specialised entity grants the ESG or green status
- Compilers **should** provide information (metadata) on whether the figures include *self-labelled* and/or *SPO* and/or *certified* financial instruments

Definitions

- *ESG [green]* ***debt securities*** are debt securities where the use of proceeds is restricted to (or where the issuer agrees to achieve performance objectives that) improve the condition of the environment or society or governance practices [of the environment].

- *ESG [green]* ***loans*** are funds lent by creditors to debtors in which **50% or more** of the debtor's activities improve the condition of the environment or society or governance practices [of the environment].

- *ESG [green]* ***equity*** are equity investments by investors to institutional units in which **50% or more*** of the institutional unit's revenue comes from activities improve the condition of the environment or society or governance practices [of the environment].

- ESG *[green]* **investment funds** are funds investing in financial instruments, companies, projects or other funds that intend to achieve performance objectives that improve the condition of the environment or society or governance practices [of the environment].

Thank you!

SNA update Issues Note endorsed by the AEG and BOPCOM on 20 Feb 2024:

Issues Note: Sustainable Finance in the 2025 SNA and BPM7

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Contact:

STAT.Contact@oecd.org