



# Finding the Way Forward in Post Covid-19 World and Sustainable Finance

COMCEC Capital Market Regulators Forum

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# Covid-19 Recovery and Sustainable Finance

## Outline

- Covid-19 Pandemic Impact on economy & policy
- National - International green recovery initiatives
- Financial markets reaction - sustainability context
- Regulators role



# Covid-19 Impact – Economy

*“One hundred and seventy countries are going to finish this year with a smaller economy than at the start of the year, and we already project that there will be more debt, bigger deficits, and more unemployment. And there is a very high risk of more inequality and more poverty....Unless we act”*

**(Kristalina Georgieva, Managing Director, IMF, May 2020, Opening Remarks at UN Event on Financing for Development in the Era of COVID-19 remarks)**



# Covid-19 Pandemic Impact on Economy & Policy

Dealing with Covid-19 challenges, in an economic downturn, we all experienced that vulnerable parts of financial systems, societies such as income inequality, safety networks, development metrics among countries, existing environmental risks have become much more visible, urgent issues.

This has led institutions, industry leaders to  
question economic, societal systems & pose big questions,

a new way of looking capitalism with more stakeholder balance, more long termism balance.

- **What is the purpose of company?** Do we need need to develop a new, more human framework for the corporation, around well defined and aligned purpose.
- **Is finance fit for purpose?** Does it meet the needs of investors, economies, society?
- Does it ensure “**inclusion of social and environmental considerations**” (ESG) in the financial decision making process?
- Is GDP indicator enough to assess an economy... what type of growth.. is it sustainable or inclusive. Probably a **new dashboard is coming for the new economy**.

Resilience by financial institutions, investor's and capital's role for making economic and social systems more dynamic and able to withstand external shocks is an expectation to sustain.



# Covid-19 Impact – Economy

Post Covid-19 world growth, should lead to

|                 |                       |
|-----------------|-----------------------|
| <b>greener,</b> | (transition to green) |
| <b>smarter,</b> | (digital economy)     |
| <b>fairer</b>   | (income inequalities) |

world in the future.



# Covid-19 Pandemic Impact on Economy & Policy

Sustainability agenda's main focus rests on lessening the short-termism pressure in financial and economic decisions by strengthening transparency. This is prominent with the mission of capital market regulators to support long term finance and strengthened disclosure.

ESG investing, utilising a range of non financial information to better align finance with long term and societal values. Better informed investors, more responsible investment decisions.

Corporate managers are overly focussed in short term financial performance and disregard opportunities and risks stemming from environmental and social considerations. Enhancing corporate governance mechanisms can help in this respect.

Societal and environmental risk strongly accelerates transition towards ESG strategies and stakeholder economy progressively replacing shareholder economy to deal with issues ahead of us.



# Covid-19 - National & International Green Recovery Initiatives

- **Massive injection of fiscal and monetary stimulus packages.**

By injecting funds and thereby focussing on green recovery is considered as a win-win strategy, opportunity to ensure a sustainable recovery from the economic impacts of the Covid-19 crisis.

Many governments have already included “green” recovery measures in their crisis recovery packages (OECD estimates amount to about USD 312 billion) – for example through grants, loans and tax reliefs directed towards green transport, circular economy and clean energy research, development and deployment.



# Covid-19 - National & International Green Recovery Initiatives

## **China Pledge to Be Carbon Neutral by 2060**

Before Covid-19 crisis, China was resistant to climate neutrality. This new commitment is declared by the State President in September 2020, at his UN speech.

Carbon pricing can also provide revenue to cash-strapped countries. Currently, 78 national and subnational governments, representing 22% of global emissions, have already implemented or scheduled carbon pricing schemes, raising USD 44 billion in revenues in 2018. Some of the revenues can be used to ease the transition for vulnerable groups.

## **Great Reset initiative - World Economic Forum, IMF**

Reset in economic, social, ecologic thinking.



# European Green Deal (December 2019)

- Europe's **new growth strategy** and plan to make the EU's economy sustainable.
- A plan to be the first climate-neutral continent by 2050.
  - there are no net emissions of greenhouse gases by 2050
  - economic growth is decoupled from resource use
  - no person and no place is left behind
- *Sustainable Europe Investment Plan of 1 trillion Euro- that will give investors confidence to support long term environment friendly projects. This will mean new jobs, cleaner environment and better quality of life.*



# EU Commission Action Plan “Financing the Sustainable Growth”

- Tool for EU Green Deal Strategy
- Transition to green not only supports sustainability but also enhances the competitiveness of EU industries.
- Action Plan has 3 main targets with plenty ramifications for financial services industry.
  - Reorient capital flows to sustainable investment
  - Manage financial risks stemming from climate change, social risks, environmental degradation
  - foster transparency and long termism in financial and economic activity



# Financial Markets Reaction - Sustainability Context

## Green Investment

- Green Bonds
- Green Equity Indexes
  - FTSE4Good,
  - S&P Global Eco Index
  - S&P Global Water Index
- Sustainable Index Mutual Funds And Exchange-Traded Funds
  - The assets of sustainable index mutual funds and exchange-traded funds have doubled to \$250 billion in the past three years.

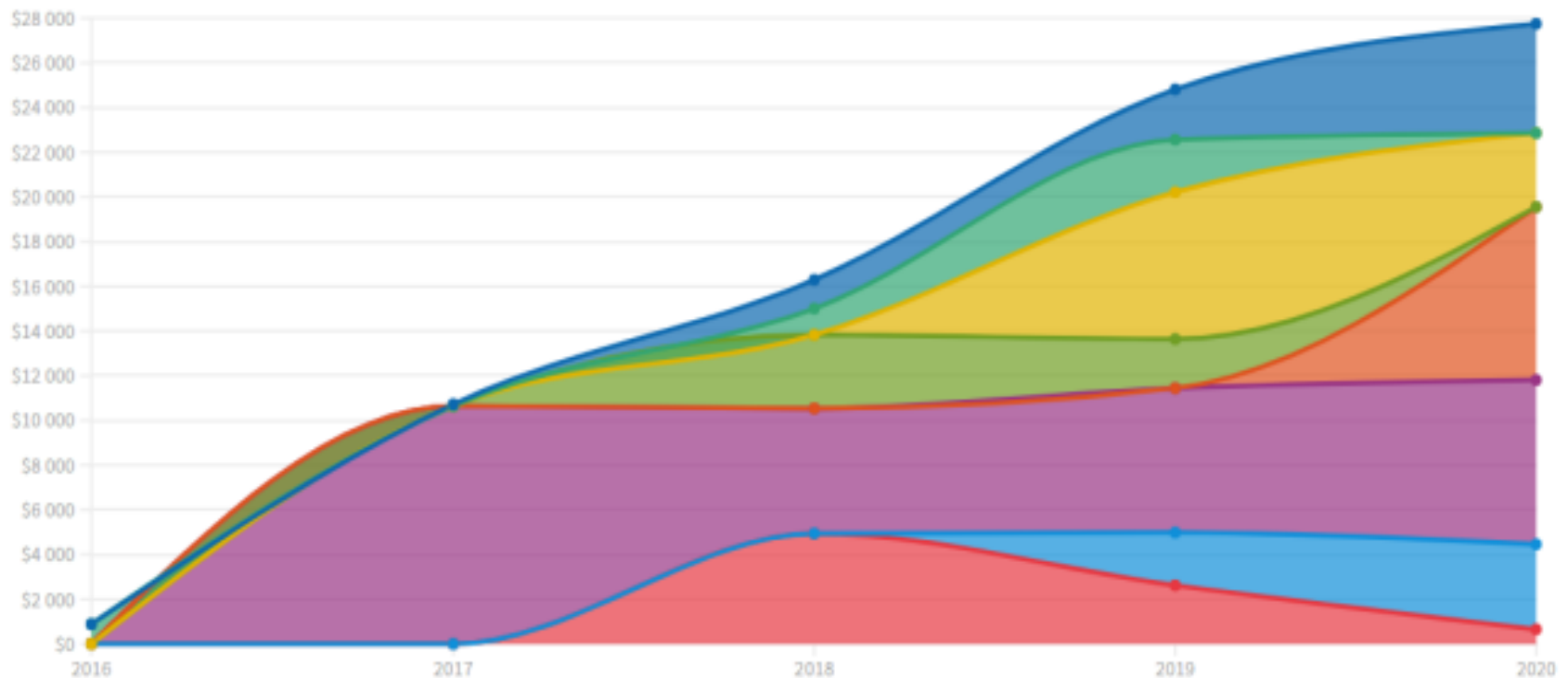


# Sovereign Green Bond Issuance-

## Sovereign green bond issuance

Total, million USD

■ Belgium ■ Chile ■ France ■ Germany ■ Ireland ■ Netherlands ■ Poland ■ Others





# The Middle East's and North Africa's First Sovereign Green Bond - Egypt

-Egypt's 29 September 2020, sovereign green bond issuance of \$750 million five-year notes at a yield of 5.25%, pulled in orders \$3.7 billion, for nearly five times the \$750 million.

-\$1.9 billion portfolio of potential green projects, including clean transportation, renewable energy and sustainable water management.

strategically, issuance helps locking-in new financing sources and broaden the country's investor base, while help lowering its borrowing costs.



# COVID-19 Financial Markets-Social Bonds

## **Financing sustainability at a time of crisis**

- Social and sustainability bonds with use of proceeds aligned to funding essential services such as healthcare, water and sanitation, supporting employment, or with a link to the relevant UN SDGs can have a role to play in directing capital to initiatives that will help mitigate the impact of COVID-19.
- Such instruments could help issuers in both developed and developing countries unlock funding for a wide range of critical projects in both short and long term.



# COVID-19 Response Bonds

A number of COVID-19 response bonds have been issued in line with ICMA Social Bond Principles, ICMA has also offered further support and guidance for COVID bonds.

- **Green,**
- **Social,**
- **Sustainability**

bond guidelines are immediately applicable to COVID-19 response bonds.



# COVID-19 response Social Bonds

## **Rise of C19 bonds boosts social bonds**

*"The present crisis is going to power the concept of sustainability and social bonds."*

(Sustainability Funding at European Investment Bank's capital markets.)

*"Greater emphasis on social finance and sustainable development will likely be one of the lasting outcomes of the coronavirus crisis,"* (Moody's)



## African Development Bank- “Fight COVID-19” Social Bonds

*“We are proud to announce that our first listing on London Stock Exchange is a social bond. This is only the beginning of a stronger partnership between the African Development Bank and London Stock Exchange. We will mobilize all we can on the capital market to fight the coronavirus in Africa.” (Akinwumi Adesina, President)*

- \$3 billion bond issue attracted orders of more than \$4.6 billion from central banks and institutional investors (\$4.6)



# Covid-19 Recovery and Sustainable Finance

## **COVID-19 - Stock Exchanges Responses**

Fee-waivers by Stock Exchanges (Luxembourg, London, Nasdaq) for bonds that fund essential services (healthcare, sanitation) or support employment.



# Covid-19 Recovery, Sustainable Finance & Regulators' Role

## Regulators' Role

- **Regulators**, supervisors and businesses are **increasingly recognizing climate-related risks** as a source of financial risk that can affect not only specific firms or sectors but more broadly the stability of the financial system. Both the physical effects of rising temperatures and a transition towards a low-carbon economy can trigger risks that have “distinct characteristics compared to other structural risks.
- Securities regulators play an important role in the overall investment chain, they should engage a **multistakeholder approach to expand investment in sustainability area**.
- Markets are ahead of securities regulators in terms of sustainable finance instruments, so there is a **need to catch up**.



# Covid-19 Recovery, Sustainable Finance & Regulators' Role

## Regulators' Role

- **ESG issues** have direct implications on Regulators core mandates of **investor protection and market stability**.
- There is not a unique approach towards ESG components among different stakeholder groups, and thus, the approach to disclosure for each component may vary, between industries and between countries.
- Taking into account these variations, ESG factors have emerged as a key trend in the financial services industry, bringing innovation, raising a number of questions and methodological challenges as well as to business practices and investment strategies.



# Covid-19 Recovery, Sustainable Finance & Regulators' Role

## Regulators' Role

- The appropriate management of material ESG-related risks by issuers and financial institutions, the risk of **greenwashing** and the lack of reliability and comparability of material ESG-related data and disclosures are some of the issues that have drawn the attention of many regulators.
- Examples of greenwashing can include an over-emphasis of ESG considerations in the communication of a product or instrument and in corporate information, where such considerations have had a very limited impact on the actual investment or business strategy implemented.



# Covid-19 Recovery and Sustainable Finance

**THANK YOU**

**Seçil Sayın Kutluca**

**CMB, Turkey**