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SPECIAL SECTION ARTICLE

Introduction to the practitioners' special section: Financing the green transition in times of crisis

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Abstract

Making innovation, trade, investment and environment policy goals mutually supportive creates challenges for internationally-oriented firms, financial institutions, governments and other stakeholders. Will the Ukraine war derail the green energy transition? How can governments and the financial system work together to broaden, deepen, and accelerate the global transition to net-zero? What are innovation, trade and investment opportunities for green growth? How to refocus government financing instruments to support countries and trade partners meet their climate targets in times of crisis? The IfTI Global Symposium 2022 hosted by the Institute of Trade and Innovation (IfTI) at Offenburg University discussed challenges to trade in a new global order, as well as opportunities and threats of the green transition. This Special Section brings together practitioner commentaries of key symposium speakers.

1 | ALIGNING TRADE AND CLIMATE POLICY

Many governments have sought to implement and strengthen climate policies for the global pathway to net-zero emissions by 2050. In recent years, increased urgency has led to a broad range of policy approaches, strategic directions, and concrete government actions. Some economies such as Canada, Denmark, Japan and the United Kingdom have an overarching climate plan or strategy which systematically links industry strategies, targets, and actions. The UK government, for example, sees the country as being well placed to bring trade and environmental agendas together, and to be a leader in decarbonisation and free trade. As discussed by Xiana Méndez in this Practitioners' Special Section, Spain is committed to incorporating sustainability as a cross-cutting vector in the design of public policies. In the area of trade policy, the growing relevance of sustainability is reflected in the Spanish support for the inclusion of sustainability in the negotiation of all trade agreements as a fundamental element. The same applies for the adaptation of instruments to encourage the financing of projects that contribute to the fight against climate change in both its mitigation and adaptation aspects.

2 | THE IMPORTANCE OF PUBLIC FINANCE INSTITUTIONS

Mandates of export–import banks (EXIMs) and public export credit agencies (ECAs) mostly focus on export-led growth while international bilateral and multilateral development banks' mandates traditionally revolved around development and poverty reduction. Many public finance institutions also have a strong climate finance mandate. A clearly expressed climate mandate is a natural continuation of the increased focus on public export finance institutions, having to shoulder a special responsibility for delivering sustainability and help deliver positive impact of the financing provided that goes beyond supporting exports and national jobs. The difference is that governments are making it part of the mandate of institutions now and not just an additional add-on requirement. Yuichiro Akita discusses in this Practitioners' Special Section that EXIMs and ECAs are expected to offer risk mitigation or a management tool, such as investment insurance, to facilitate more investment in green and energy transition spaces. There is also an expectation that the ECA, as a public institution, delivers more than just the financial product.

Examples of changing mandates are Korea, the United Kingdom, Canada and Denmark: The Export–Import Bank of Korea is an important actor for Korea's trade and climate policy, supporting the 'Korean New Deal 2.0' and its component 'Green New Deal'. The UK Export Finance's new strategy focuses on an increase of support for clean growth, climate adaptation and resilience sectors, supporting global mitigation and adaptation efforts. Export Development Canada (EDC) plays a crucial role for the government's trade and climate policy. As Mairead Lavery explains in this Global Policy issue, examples of EDC's activities are its sustainable bond framework, new climate finance products, as well as sector- and science-based carbon intensity targets for key industries. Peder Lundquist also emphasises that public finance institutions such as EKF Denmark's Export Credit Agency have an important and effective toolbox when it comes to accelerating and shaping development through financing and dealing with risk. However, to truly deliver on the green transition, all parts of government and society must adapt.

3 | ECONOMIC GROWTH AND CLIMATE ACTION IN AFRICA AND ASIA

Benedict Oramah assesses the importance of a multilateral development bank for climate action in Africa. In addition, he underlines that there are two extremes to the climate debate. There is a school of thought that argues that Africa should abandon fossil fuels and leapfrog into renewables as the main energy source for development. This is due to the fact that Africa is largely free from legacy investments that contain clean energy adoption in mature markets. On the other extreme, it is argued that the abundant oil and gas resources in Africa must be used to deal with the devastating consequences of the energy deficit that the continent suffers. Ratnakar Adhikari argues that Aid for Trade as a subset of official development assistance can be a key solution to help least developed countries to mobilise climate finance, for example in Africa and Asia. This, however, requires better appreciation of the need to enhance coordination, build capacity and achieve synergies between different sources of development finance. Yuichiro Akita also discusses how to support the energy transition based on challenging regional circumstances and reflects on how Nippon Export and Investment Insurance as an ECA has to be open to incorporating regional private-led transition finance initiatives into their business models to support the energy transition in Asia.

4 | THE NEED FOR GLOBAL GOVERNANCE

Unlocking and mobilising public (and private) finance is fundamental towards radically scaling climate action. On an international level, EXIMs, ECAs, development banks and commercial financial institutions collaborate in different ways. Examples are common regulatory approaches, information exchange, co-financing, and reinsurance. However, trade-related finance for climate action has advanced despite an outdated regulatory framework for export credits and in the absence of an overarching commitment framework.

The Arrangement on Officially Supported Export Credits (Arrangement) of the Organisation for Economic Co-operation and Development (OECD) is the most relevant regulatory framework for governments providing finance in support of trade through EXIMs and ECAs at the international level. It sets minimum standards for export credits supported by public ECAs or financed from public funds. Marion Jansen emphasises in this Special Section that the Arrangement is important for trade in this period of crisis and geopolitical tensions. She also shows that the Arrangement provides an excellent platform to tackle the urgent challenge of the green transition in a transparent and trustworthy way in addition to existing regulatory frame conditions.

However, it is still unclear for public financial institutions what a comprehensive governance response to meet the requirement of the Paris Agreement would be. Governments have stated clear expectations as seen in the recent European Union Council Conclusions on export credits recognising the 'role of officially supported export credits in promoting and supporting a shift in investments towards climate-neutral, climate resilient projects', and governments as well as their EXIMs and ECAs are tackling how to do this at G7, Export Finance for Future E3F and OECD level among others. However, a clear benchmark and global governance framework for both public and private providers of international finance does not yet exist. Bringing together existing and new net-zero finance initiatives in the Race to Zero into one sector-wide coalition, Alex Michie explains why the Glasgow Financial Alliance for Net Zero (GFANZ) can play an important role not only for commercial institutions but also for EXIMs, ECAs and development banks: GFANZ provides a forum for leading financial institutions to accelerate the orderly transition to a net-zero global economy.

5 | CONCLUSION

More than 100 high-level participants from governments, innovation funds, development banks, EXIMs, ECAs, the private sector and academia – the IfTI Global Symposium 2022 at Offenburg University brought together policy makers, international financiers and experienced practitioners in the German Black Forest. This Global Policy Practitioners' Special Section shows that national policy objectives can form the foundation of public sector entities' strategic directions and institutional level policies, for example regarding trade and climate policy. Many countries such as Canada or Denmark have established respective policies and net-zero goals of varying ambition, systematically linking climate action and trade policy. EXIMs and ECAs play a crucial role in this context. Based on climate finance-related mandates, many institutions introduced ambitious climate strategies in recent years. However, significant challenges such as a just transition, as well as a concise international commitment framework remain.

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