**MEDIA RELEASE**

**Empowering Emerging Economies: Central Banks Take Charge in Managing Climate Risks**

**India, 09/06/2023:** **The central banks of Indonesia, India and Brazil, collectively known as the G20 Troika, convened for an engaging virtual roundtable on 8 June to reflect and highlight some key challenges facing emerging economies and central banks’ role in navigating and accelerating a stable green transition.**

The roundtable, titled “Regulators' Perspectives on Climate Risks and Sustainable Finance in Emerging Economies”, was co-organised by Climate Bonds Initiative, ODI and auctusESG in partnership with the Institute for Energy Economics and Financial Analysis (IEEFA).

Preceding the 3rd meeting of the G20 Finance Ministers and Central Bank Governors (FMCBG) in July, as well as the 3rd Sustainable Finance Working Group (SFWG) in June, led by India's G20 Presidency, this event served as a crucial platform.

**Highlights include:**

* Central banks need to build awareness, foster new skills, capture granular data and gradually move to prescriptive regulations;
* The forward-looking nature of climate risks makes it unique compared to other risk buckets hence tackling climate risk by financial institutions is difficult;
* Domestic efforts and international cooperation through forums like the G20 on building capacities among financial sector stakeholders need to be accelerated.

**Saurav Sinha, Executive Director, Reserve Bank of India said:** “Central banks recognise that the nature of risk does not change, and key aspects of mitigation – identification, measurement, monitoring and management – required for climate risk are similar to traditional risk categories for financial institutions. But the challenge in tackling the forward-looking nature of climate risks as they materialise over a longer period of time is unique. And there are issues relating to data availability and quality making climate risk modelling difficult.”

Referring to the Basel Pillars of minimum capital requirements (Pillar 1), supervisory review (Pillar 2) and market discipline (Pillar 3), he maintained that the RBI’s approach will be to strengthen  Pillar 3 and 2 first through climate related financial disclosures and risk management by financial entities rather than being prescriptive as a starting point. Capacity building will be a huge need and a challenge, which he said is also prioritized by G20 Sustainable finance working group under India’s Presidency.

The RBI Executive Director’s views were echoed by **Ricardo Harris, Head, Dy Governor’s Office, Banco Central Do Brasil**:

“Accurately capturing climate impact on bank balance sheets will remain a challenge in the coming years, so building a robust capacity to develop new skills, including in non-traditional disciplines, will be imperative in comprehending transmission channels, generating new data sets, customising scenarios and refining methodologies to measure the impacts of climate change on the financial system.”

Harris emphasized the viewpoint of emerging markets, highlighting that discussions surrounding the impact of climate change cannot be separated from social aspects. In line with this perspective, the Central Bank of Brazil has taken a significant step by expanding the scope of Climate-related Financial Disclosures to include social and environmental aspects.

A notable initiative, distinct from those of developed market central banks, focuses on financing sustainable agriculture. Harris explained, "The Bank's 'Sustainable Rural Credit Bureau' has implemented a system that goes beyond financial numbers, capturing comprehensive technical data. This includes information about cultivated crops, adoption of renewable energy sources, and coordinates of financed properties." This approach ensures compliance with environmental regulations and addresses other sustainability concerns.

Bank Indonesia is undertaking analysis of transition risk in select economic sectors. **Mr Irman Robinson, Director, Macroprudential Policy, Bank Indonesia,** emphasised that the regulators in Indonesia are very conscious about just transition and the huge task of reskilling or training the work force as transition gets afoot. He said that the Bank Indonesia is developing tools like carbon calculator to help firms measure carbon emissions, along with developing an integrated reporting system that will capture emissions data. He emphasized that the prudential polices that favor greening of MSMEs will be very important.

Extending the thought**, Thomas Melonio, Executive Director, AFD Innovation, Strategy and Research, said,** “it will be important for central bankers to provide scenarios at the national level as commercial banks are not necessarily well equipped to know exactly what the climate model of the country or the national trajectory of the country means for their own portfolio.”

“Due to the uniqueness and complexities of climate change, financial sector regulators globally do not have the capacity and know-how to tackle climate risks, either on their portfolios or even with their regulated entities. While we have seen some progress made by financial regulators in developed economies, more exchange of methodologies and tools with emerging economies will help the latter. Forums like the G20 can play that role of being a platform for exchanging such ideas,” **said Vibhuti Garg, Director, South Asia, IEEFA.**

On the question of mobilization of finance, **Mr Robinson, Bank Indonesia said** that the G20 Presidency under Indonesia gave recommendations on three key areas. “The first one is to build the green transition framework. The second one is to increase the commitment of financial institutions for green transition and the third one is to scale up sustainable finance”. In this regard, he mentioned that green taxonomy-based bonds present a huge opportunity to mobilize finance.

While cooperation between regulators on capacity building is important, Thomas Melonio, said that cooperation between development banks is equally important and has already begun. “Development banks will typically be the ones that will issue the green bonds at the end of the day. Of course, regulators will design the regulation, but public national development banks will be the first ones to issue a green bond or help create a market, which has been happening in many places,” he said.

**Neha Kumar, Head – South Asia Programme, Climate Bonds Initiative,** suggested not to ignore the current monetary policy tightening, which some would argue, can slow down the pace of decarbonization as the cost of capital increases for large-scale capital investments in renewable energy. Connecting it to central banks’ core function of maintaining price stability she suggested that high inflation could fundamentally hurt investments by distorting price signals and increasing uncertainty. She added G20’s Sustainable Finance Technical Assistance Action Plan will carry suggestions on what can be done to build capacities and coordinate better among G20 countries on climate and sustainability risks and sustainable finance issues that will help augment the flows of finance from the Global North to the Global South.”

**Dr Rathin Roy, Managing Director, ODI** made it clear that regulating the financial system for climate risks is a complex endeavor. He said, “It will remain a tight balancing act with regulators guarding against prudential risks arising from climate events on the one hand and making increased financial resources available on the other.”

**ENDS**

**For more information, please contact:**

Luiza Mello

Communications Senior Specialist

T: +55 (61) 98209 8126

E: luiza.mello@climatebonds.net

**Notes to editors**

**About the** [**Climate Bonds Initiative**](https://www.climatebonds.net/about): Climate Bonds is an international organisation working to mobilise global capital for climate action. Climate Bonds works towards developing a large and liquid Green and Climate Bonds Market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets.

**About** [**ODI**](https://odi.org/en/about/our-work/climate-and-sustainability/): ODI is a global affairs think tank. Through research, convening and influencing, it generates ideas that matter for people and planet. [ODI’s Climate and Sustainability team](https://odi.org/en/about/our-work/climate-and-sustainability/) is comprised of some of the world’s leading experts in the fields of climate change, energy, sustainable finance, low-carbon development, and land and water policy. With the objective of creating a more equitable and sustainable world, they produce sector-leading insights and research to inform policy at the highest levels.

**About** [**The Institute for Energy Economics and Financial Analysis**](https://ieefa.org/what-we-do): The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends, and policies. The Institute’s mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

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