Sustainable Finance Markets in EMs

Evolution, Challenges and Policy Priorities

Fabio M Natalucci

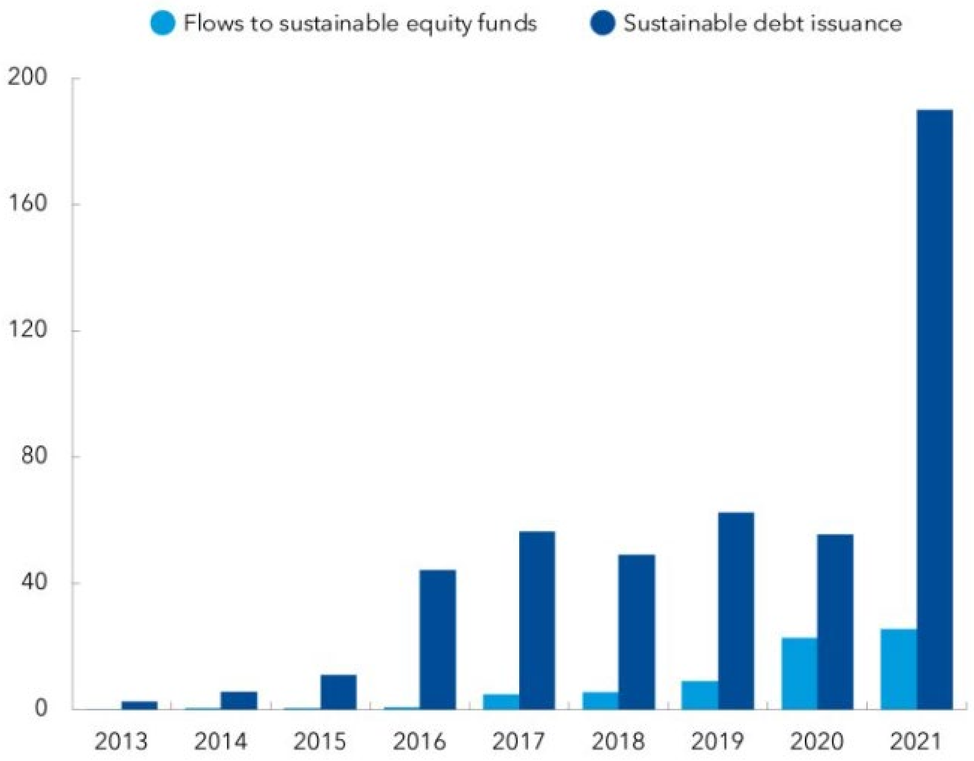
Deputy Director

Monetary and Capital Markets Department

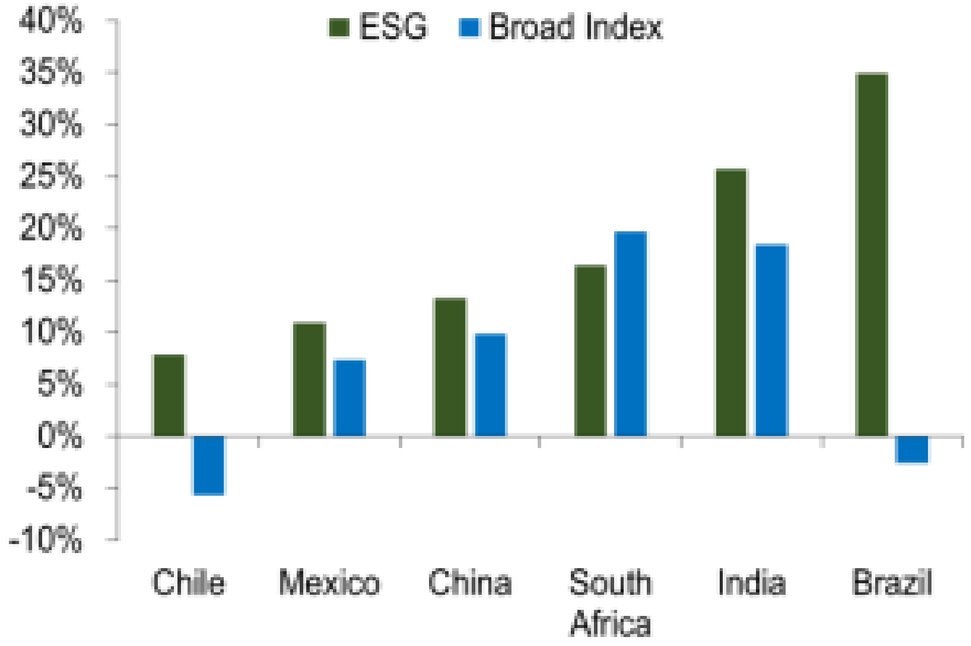
Evolution of the EM ESG Ecosystem

2021 Was a Breakout Year for EM ESG Flows

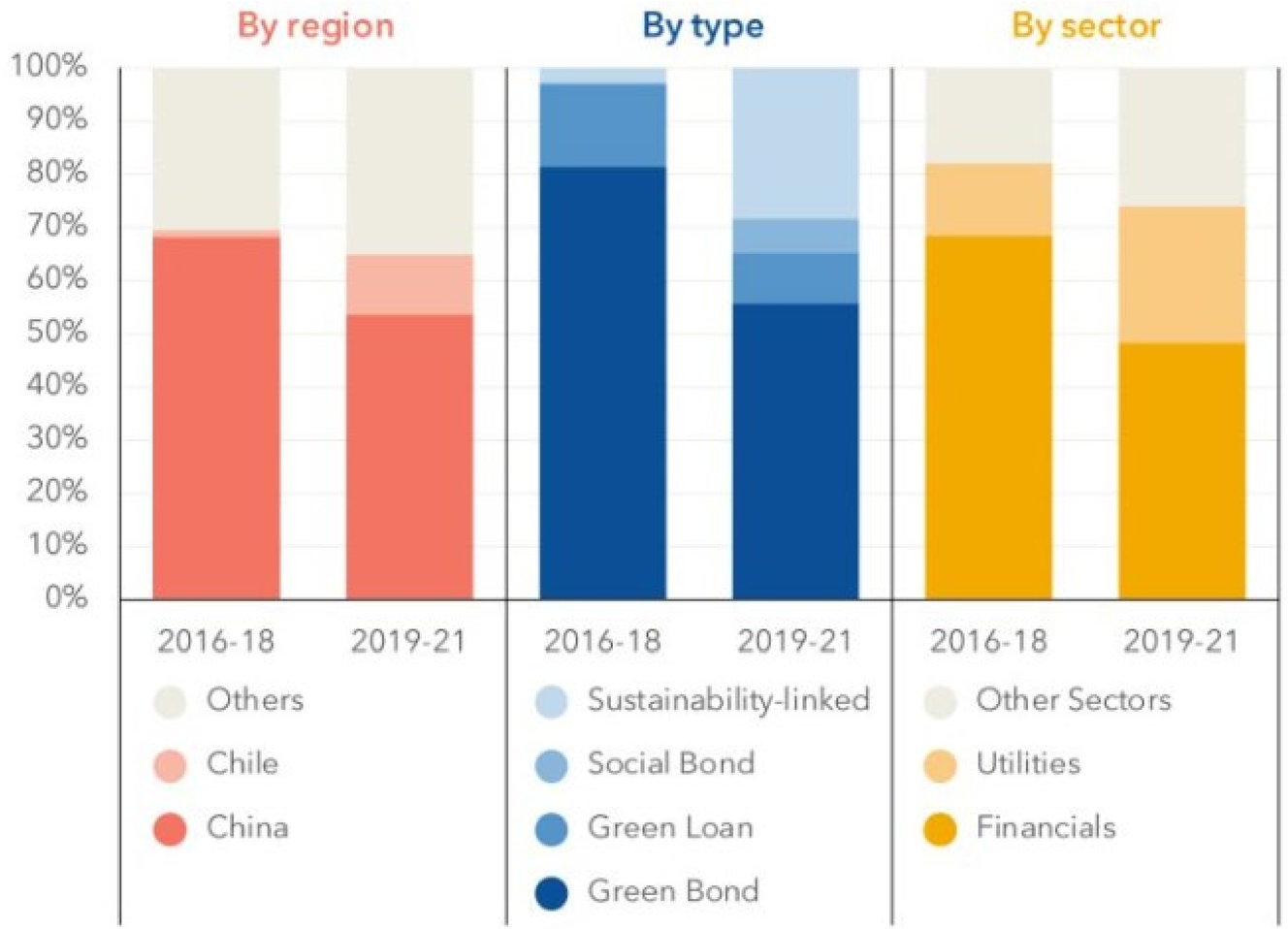
Sustainable Finance Flows to EMs



Equity Performance: ESG vs the Broad Index
(Annualized return since Jan 2020)



Steady Expansion of the Universe Across Multiple Dimensions



ESG Flows Are Becoming Important for Financial Stability

Chart 5. ESG Issuance as a prorportion of the total issuance (Percent; for EMs ex China)

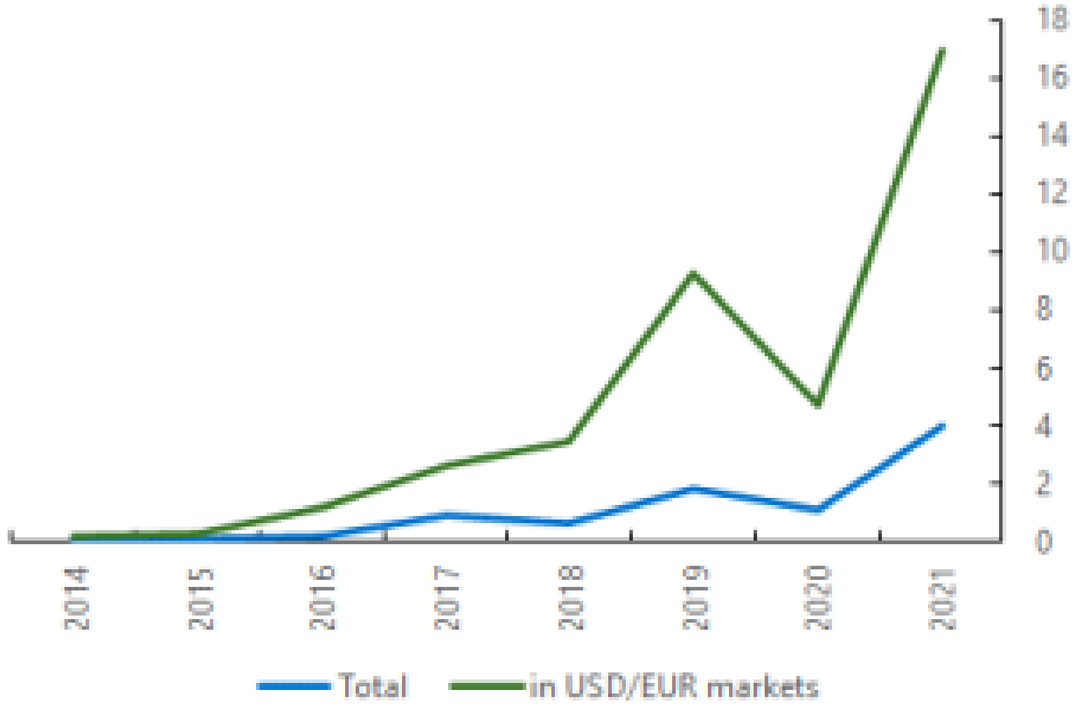
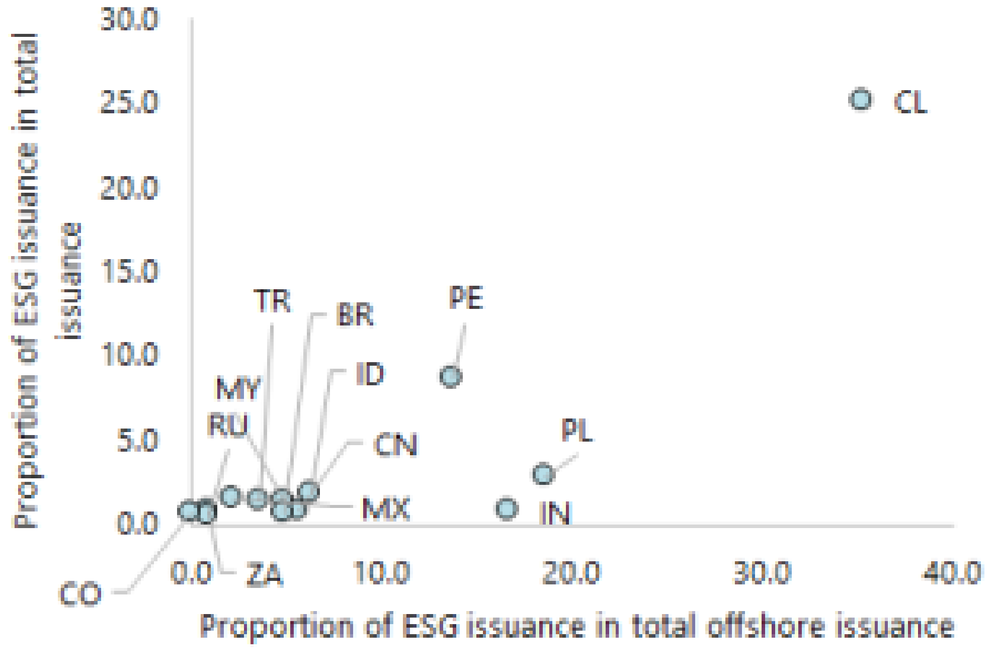


Chart 8. ESG Issuance as a prorportion of the total issuance – Country level (Percent)



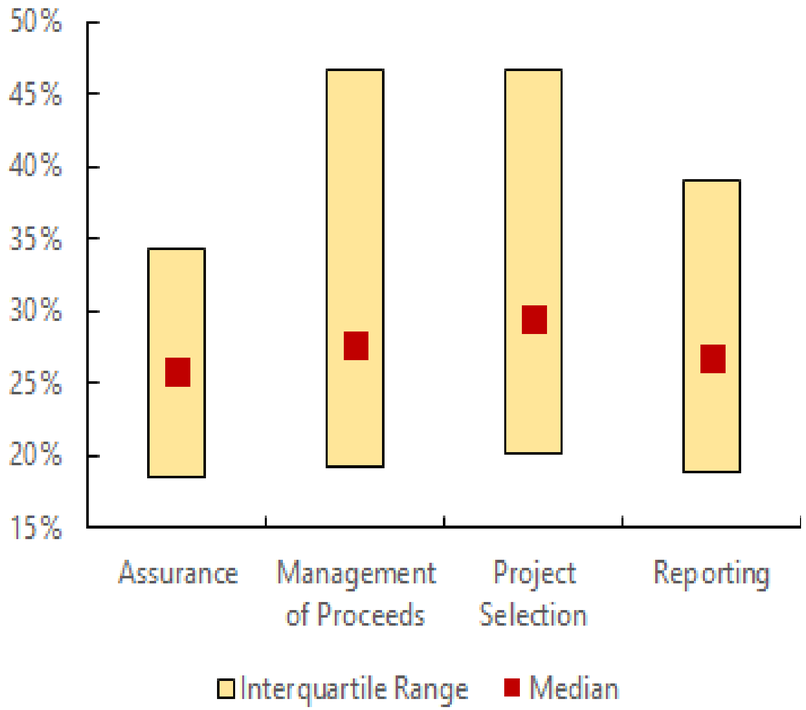
Category Mix Varies Significantly Across EMs

Table 2. Type of Sustainable Finance Issuance by key EMs (Cumulative since 2015 beginning)

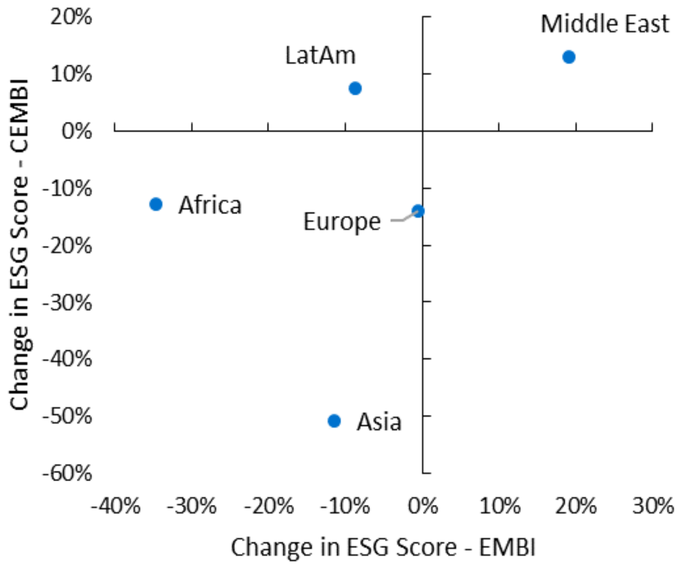
	Green Loan	Green Bond	Social Bond	Sustainability Bond	Sustainability-linked Loan	Sustainability-linked Bond
Brazil	4	9		2	3	6
Chile	4	12	15	5	0	1
China	12	231	1	10	8	7
Colombia	1	0		0	1	
India	15	17	1	1	2	1
Indonesia	5	5		1	1	0
Malaysia	0	1	0	3	1	
Mexico	4	9	1	5	7	5
Peru	0	1	1	3		0
Poland	1	7		0	1	1
South Africa	7	0	0		1	0
Russia	2	1	1		6	
Turkey	6	1		3	7	

Key Challenges Faced by EMs

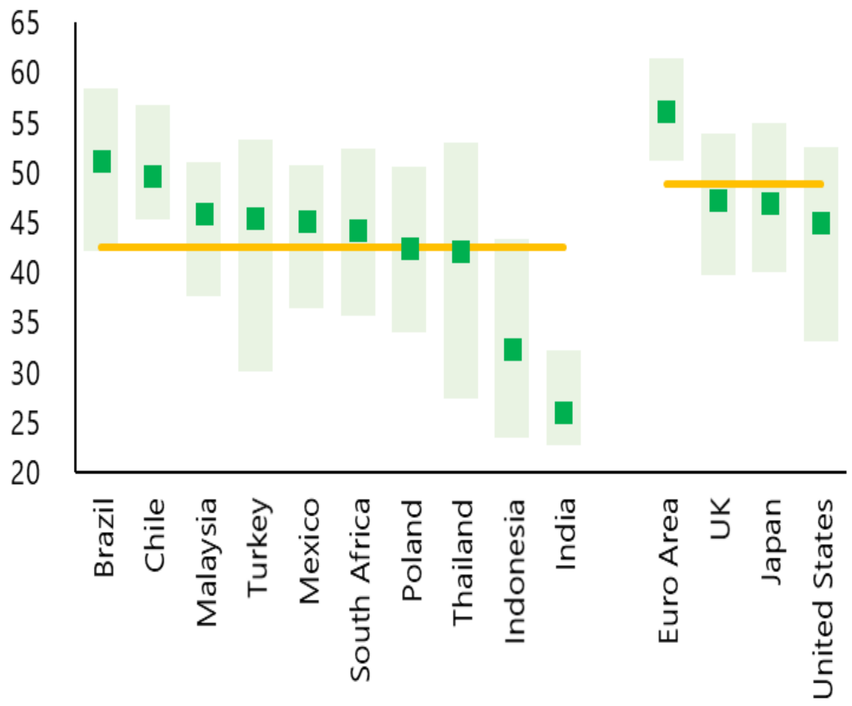
Share of Projects Adhering to ICMA Green Bond Principles (Range across EMs)



Change in ESG Scores Across Regions



Percent of Corporates With Data Disclosures
(Range across EMs)



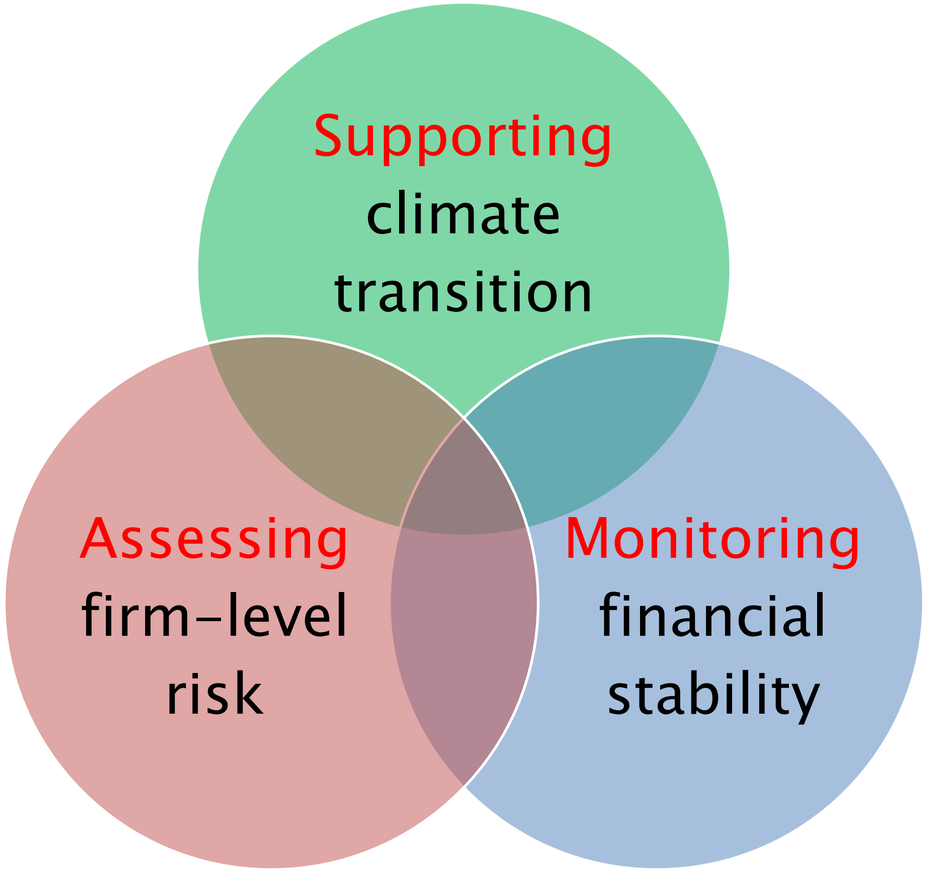
Note: Data disclosures are weak particularly for the 'E' segment

Policy Priorities

Role of Climate Data

Robust, reliable and comparable climate data are crucial for financial sector stakeholders

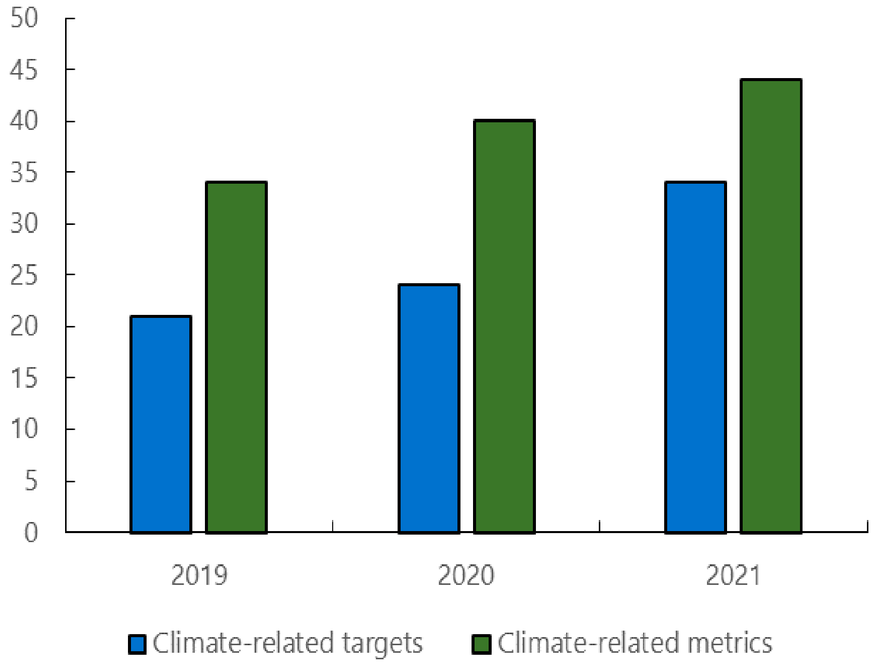
Three Overlapping Key Objectives for Climate-Related Information



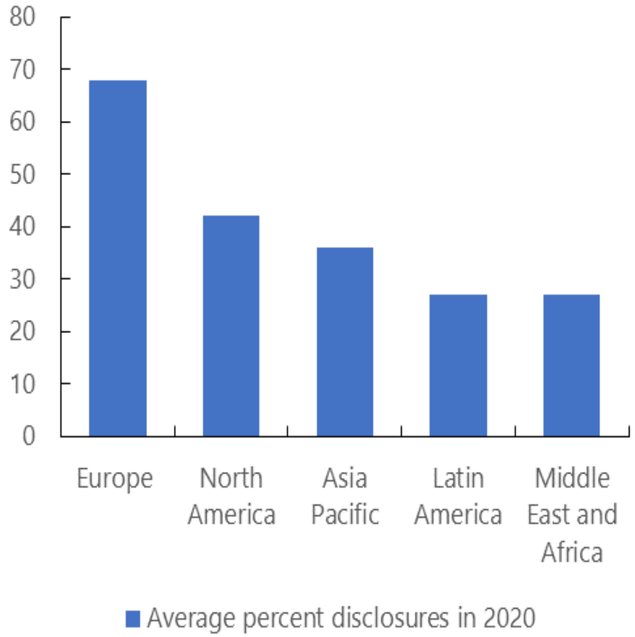
Role of Climate Data

Robust, reliable and comparable climate data are crucial for financial sector stakeholders

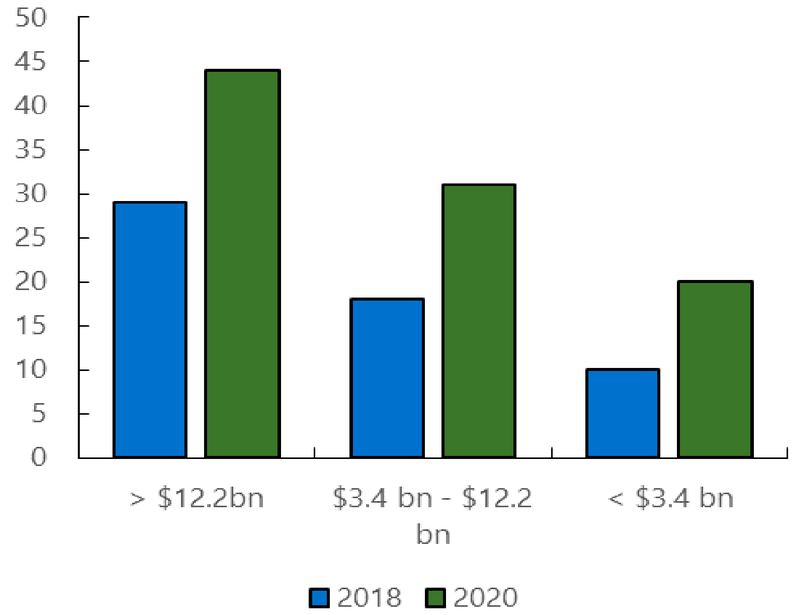
Percentage of firms that disclosed climate-related metrics and targets



Disclosure by Region: Reporting for Top 50 Companies



Disclosure by Company Size

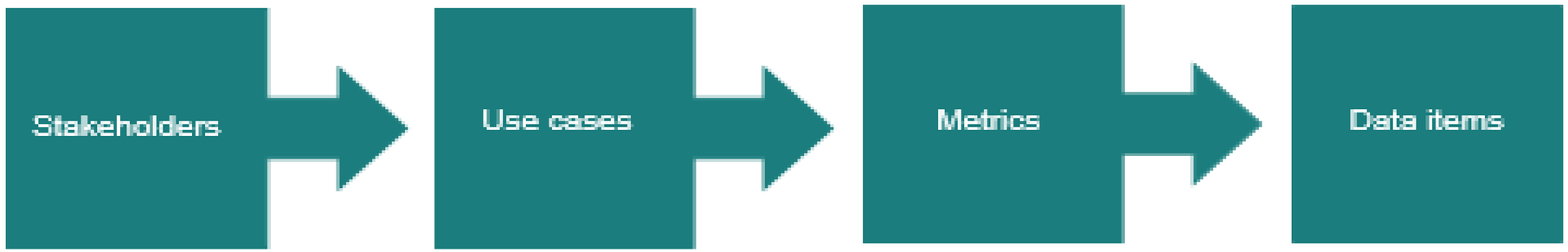


Source: Task Force on Climate change-related Financial Disclosures

The Approach of the Bridging Data Gaps Workstream

A user-centric approach aimed at identifying the needs of climate-data users in the financial sector.

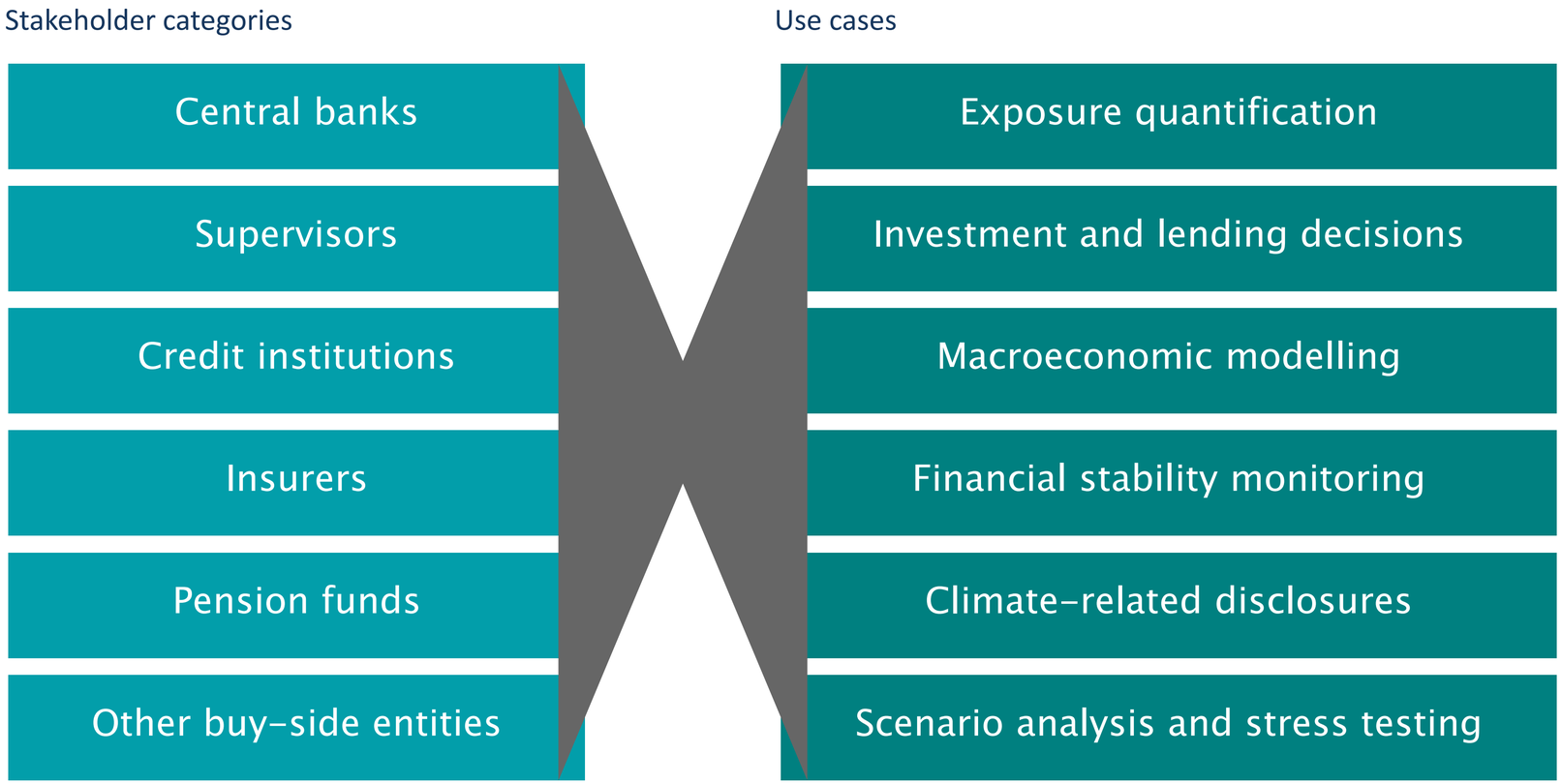
The BDG has set up a repository of data needs, focusing on use cases, metrics and raw



The repository aims at providing an evidence-based overview of data items that need to be bridged based on specific priorities.

The approach of the Bridging Data Gaps Workstream (cont'd)

There are six stakeholder categories and six main use cases for which stakeholders have indicated climate-related data needs.



NGFS Bridging Data Gaps – What We Have Learned So Far

A **crowded landscape** with many initiatives under way :

- The **NGFS brings a unique viewpoint** thanks to its wide-ranging membership and their mission;
- There is **a pressing need for coordination of efforts and avoid overlaps**.

Main data challenges highlighted during interactions with stakeholders:

- largest data gaps exist for **forward-looking data** (e.g. emissions pathways, targets);
- **limited availability and granularity** of (i) “carbon” data (e.g. Scope 3 emissions) and (ii) of geographical data on asset locations to assess both transition and physical risks.
- Stakeholders calling for some assurance about the quality of climate-related data through **verification and audit mechanisms**, as well as improvements in **data accessibility**.

Solutions like open-source for data collection and distribution and machine learning techniques can play a role in making scattered information available in a more structured format, improving access to data sources such as geospatial data.

Climate Information Architecture

High-quality, reliable, and comparable data

➔ **NGFS Bridging Data Gaps, FSB**

Harmonized and consistent set of climate disclosure standards

➔ **TCFD, IFRS, IOSCO**

Principles for climate finance classifications

➔ **Future work on principles**

Source: IMF Climate Note. "Strengthening the Climate Information Architecture". September 2021

The IMF's Role in Strengthening the Climate Information Architecture

- Extensive analytical work arguing for better disclosures and more standardization (October 2021 GFSR)
- Climate Change Indicators Dashboard
- Climate risk analysis in Financial Sector Assessments (FSAPs)
- Supporting international efforts to bridge data gaps, develop a global set of disclosure standards, and harmonize sustainable finance classifications work on principles ➔

Challenges and Opportunities for Emerging Markets

- ☒ Procuring climate data is even more difficult for emerging markets
- ☒ Role of transition classifications
- ☒ Need to lever up private finance
- ✓ Opportunity to diversify industry bases
- ✓ Opportunity to invest in renewables
- ✓ Opportunity to attract a new, potentially more stable, investor base