Executive Panel Session: Nature-Related Risks, Macroeconomic Impacts, and Transition Planning

Opening Remarks:

The Honourable Ahmed Hussen
Minister of International Development, Government of Canada

Panelists:

The Honourable John Rwangombwa
Governor, National Bank of Rwanda

Sabine Mauderer
Vice-Chair, Network for Greening the Financial System; Board Member, Deutsche Bundesbank

Jean-Paul Servais
Chair, IOSCO Board; Chair, Belgium's Financial Services and Markets Authority

Stefan Ingves
Chair, Toronto Centre; Former Governor, Sveriges Riksbank (Central Bank of Sweden)

Moderator:

Jean Pesme
Global Director, Finance, Competitiveness & Innovation, World Bank

Recording Date:

October 11, 2023

Transcript:

Babak Abbaszadeh:

Hello everyone. Welcome to Toronto Centre's panel on nature-related risks, macroeconomic impacts, and transition planning. Since our establishment in 1998, Toronto Centre has trained more than 23,000 financial supervisors from 190 jurisdictions to build more stable, resilient, and inclusive financial systems. In 2016, 7 years ago, we began incorporating climate risk in our training programs. At that time, international standard setters had not incorporated that in their agendas. But, I'm very proud that today we are an implementation partner for several global bodies and standard setters such as the NGFS, IAIS and IOSCO. Sorry to throw alphabet soup at you, but I think this audience knows what they are. We have assembled a star panel; they include Governor Stefan Ingves, Chair of Toronto Center's board of directors and the former Governor of the Central Bank of Sweden, The Honourable John Rwangombwa, Governor, National Bank of Rwanda, our friend Sabine Mauderer, Vice-Chair of NGFS and board member of the Bundesbank, and Jean Paul-Servais, Chair of IOSCO and head of Belgian Financial Services and Market Authority. We're also tapping our good friend Jean Pesme of the World Bank to moderate this conversation; he did such a great job last time, John, you're back. You've seen their impressive bios, so we won't read them.

Toronto Centre's mission is sponsored by our key funders: Global Affairs Canada, Swedish SIDA, the IMF, and other valuable partners such as Jersey Overseas Aid, UNCDF, and on and on. At this time, it is my absolute pleasure to introduce Canada's new Minister of International Development, The Honourable Ahmed Hussen, who has graciously agreed to provide brief opening remarks. Before I concede the mic to him, I want to say a few words without reading the bio. He has made a name for himself in Canada as an accomplished lawyer, community organizer, and a staunch advocate for social justice, diversity, and inclusion. Minister Hussen has served in the Canadian Ministry of Prime Minister Trudeau since 2017 in three different portfolios, and in July, became the Minister of International Development. We cannot be more excited to be working with him.

He and I have a few things in common. One, is that we both live in Toronto when we aren't in places like Marrakesh. The other is that we both fled the violence of our countries of birth. Each of us sent as a teenager without parents to North America, Canada, and I don't know that either of us Minister could have imagined that we would find ourselves at a World Bank-IMF Annual Meeting, working on behalf of Canadians to help lift people in developing nations out of poverty, working to uphold democracy and human rights. Minister Hussen, it's my pleasure to give the podium to you.

The Honourable Ahmed Hussen:

Thank you Babak for that kind introduction. It is a pleasure to join all of you here today as friends and as partners because everyone in this room understands the instability that currently plagues the world. And you understand the importance of responding to the pandemic, to the aftereffects of the pandemic, to the destabilization caused by Russia's invasion of Ukraine, and by the increasing frequency and intensity of climate disasters. We know that countries will only be able to manage these challenges if their financial systems are also sound, stable, and inclusive. That's what you work on, and since 1998, the Toronto Centre has built a solid international reputation in supporting countries to do exactly that. Let me congratulate you on your 25th anniversary this year, a key milestone to celebrate your important work. You have made significant contributions to financial stability by training over 23,000 supervisors and regulators in 190 countries. This is really important work and all of us in this room are very appreciative of everything that you do.

I remember Babak when I first met you. I was working in a sub-national government, a province in Canada called Ontario. One of the files that I was working on was regulatory reform for regulators in Canada, and then I look at the work of the Toronto Centre, it's clear that we have a shared vision to create a more inclusive world, a sustainable world, a prosperous world, a secure world for everyone. A world where everyone has access to a decent job that helps make their lives and their communities better, and one that includes the meaningful participation of the most marginalized people, especially women and girls, and this ties very well with Canada's Feminist International Assistance Policy because at its core, our international assistance policy is about gender equality, it's about the empowerment of women and girls, and that is why financial systems that include women leaders, ones that make finance accessible to women entrepreneurs, are critical to the success of those economies, and one of the key things that we all know is that when you empower women, you reduce and tackle poverty.

The Toronto Centre has led the way in integrating issues like gender equality and climate risks into your work. You have found innovative ways to deliver programs that promote sound inclusive financial systems in emerging markets and in developing countries. For example, your leadership program for women supervisors and regulators in Sub-Saharan Africa. This ensures that African women leaders are prepared to take on more senior leadership roles. This is very, very important work, and that they're better equipped to promote financial resilience and a feminist economic response in their countries and regions. For example, participants have spoken about the benefits gained from something as simple as networking, and how making those connections can make all the difference to their work, how they learn strategies to find their voice, how to be authentic in the boardroom, and not fall into roles like making tea or taking notes.

So, the Toronto Centre also offers programs that support regulators and supervisors efforts to adapt to climate change related risks because climate change endangers the stability of both national and global financial systems. But financial systems can also support finding solutions to address climate change challenges, both on adaptation and mitigation. This work is making a crucial difference by delivering customized programs to supervisors, regulators, and central bankers, and it reflects the local context of this work. It also ensures that global expertise is brought to bear in creating local solutions. And so, as a government, as a country, we're proud in Canada, we're proud to partner with the Toronto Centre as they contribute to building stable, reliable, and inclusive financial systems worldwide. I look forward to seeing what we can achieve together in the future, I congratulate you on your 25th anniversary this year; it's an important milestone and I wish you a productive panel discussion this morning. I now want to turn the floor back to Baba. Thank you very much, merci.

Jean Pesme:

Good morning, everybody. Thank you very much Minister for also emphasizing the importance of stable, resilient, and inclusive financial systems, which are really important from a development perspective. Thank you very much to the Toronto Centre for organizing this event, and for the support from Canada. So, I'm not going to introduce the speakers; I think you have everybody's name, I think everybody's very well known, the bios are also available on flyers so we can get directly into this discussion on nature-related risks, macroeconomic impacts, and transition planning. We'll do two rounds of questions; each panelist will have one question and roughly four minutes to answer, and then we'll open up for questions and answers so that the audience can participate in the discussion.

So Stefan, let me start with you on what is the rationale, what is the reason for central banks and supervisors to be concerned and to engage themselves in nature-related risks? What's the impact? So, there is an element of context, what's happening, but from the fundamental mission of supervisors and central bankers, why should they look at these challenges and how does that relate to the macro impact of nature-related risks?

Stefan Ingves:

Well, first, it's a total order to solve the world's problems in four minutes, so everything I'm saying is going to be very telegraphic in some sense. Starting with a sort of a macro-perspective, it of course differs and differs enormously from country to country and it's difficult to fully understand how to translate climate issues into macroeconomic policies the way we normally talk about macroeconomic policies. But let me give it a try, a brief try.

First of all, I think that we're actually moving beyond climate and there are three strands. One is climate, another one is biodiversity, and the third is population. It will be very difficult over the coming years to deal with the issue of population because basically, population growth is the highest where it gets the hottest. And on the other hand, population will decrease in cooler areas of the world, and that will create all sorts of macroeconomic issues, not to mention the political tensions that will come out of that, and that is difficult to deal with.

The other aspect of this is the timeframe, and I've spent 29 years in central banking and basically when you deal with monetary policy, your timeframe is one quarter to the other quarter and a maximum timeframe is kind of three years. The way to think about that is to look at the probability distribution fan charts, thinking about inflation. But at the other end you have identical fan charts, produced by the IPCC, but their timeframe is 30 years. Now, how do you combine three years with 30 years? That is really, really the hard part and I don't have the answer as of yet when it comes to how to think about those things within those two very, very different timeframes. As of yet, we simply do not have a framework reconciling those two very, very different timeframes and different ways of looking at things.

But at the same time, if you think about this from a central banking perspective and you think about it from the perspective of the economy as a whole, clearly many of the measures that are needed to be taken will affect fiscal policy, they will affect tax policies and they will affect structural change within the economy as such. And that we need to understand in a much, much better way compared to the way we've been sort of thinking about it in the past because it's clear if you are in the central banking business, you almost take for granted, in a three-year perspective that the structure of the economy is constant and that's not the way it's going to be in the future. Thank you.

Jean Pesme:

Okay, thank you. So, Governor John, Rwanda. So, we can see the impact of the degradation of nature. Things are being done to preserve and restore it and this has macroprudential and micro-prudential consequences. So, in your country and Rwanda has been at the forefront of the work on climate issue, how do you look at that? What are the consequences and what can you do as a central banker and supervisor?

The Honourable John Rwangombwa:

Thanks for the question and let me again start by thanking Toronto Centre for assembling us here this morning and for giving us the opportunity to discuss this emerging but very important topic. For the central bankers, at least in our part of the world, we are just restarting to focus and deal with this issue of climate change and biodiversity degradation. Talking about Rwanda, maybe I would say what has been the main cause of biodiversity degradation in Rwanda. As the population increased and are mainly relying on agriculture, a lot of land was cleared for agriculture purposes, so forest natural forests were lost. That was one of the biggest challenges we had before.

Then again, in terms of settlement at the beginning, settlement was done haphazardly, and factories and homes would end up in wetlands and that affected the ecosystem and the natural flow of water and the other ecosystem matters. Then the use of, apart from clearing forests for agriculture, we still have maybe about 80% of our population relying on wood or charcoal and that also creates pressure on forests. Then as the world evolved, so did the use of plastic materials that are non-biodegradable. So, that created real pressures on the natural ecosystem, and these have ended up in disasters within our country, mainly soil erosion and flooding. Also, the other that is really attributed to global warming in general is short and very heavy rains that really cause flooding but also long dry spells that has greater affected agriculture, and that in a way affects livelihood.

In terms of, as you're talking now to the central bank, the biggest challenge we've faced through these climate change issues is on inflation. I think Stefan has just touched on that. As a country that still has about 27% of our economy in agriculture and about 57% of our population employed in agriculture, and the agriculture food contributing to about 28% of our inflation basket. So, that's a lot of land and the prolonged dry spurs have affected agriculture. For example, in the last five years, 2016 to 2021, our agriculture was growing around 4%. But in the last two years, we've had a very poor performance of agriculture growing at negative 2%. So, that has affected the lives of the population, that has affected inflation. Food inflation went up to around 52% at the end of last year. It's today about 28% or still very high, high and a challenge to us as the monetary authority, but more so a challenge to livelihoods of our population, to people's lives.

It has also impacted on our balance of payment because as we have poor domestic food production, our input bill has increased because we have to import more food and that has an impact on the overall exchange market. Our depreciation levels for our Rwanda domestic currency have gone to double digits that we haven't experienced for more than 10 years this year we expect it to be above 15%. Now, all this comes back to the question you asked me about the impact on the financial system. Good enough, we haven't had a big impact on the financial system though at the macro level because of this high inflation and because of the challenges with exchange rate that is impacting on the assets of the financial institutions. But in terms of the credit risk, it's been mitigated because of the actions taken by the government. I told them the causes of degradation, but government had to come in strongly as you said.

So, there's been relocating people and factories and all installations within the wetlands and that had a big impact of course on people's assets. But the government had to take the heat by compensating the lost assets and allowing especially the business establishments to relocate. But there's also been a lot of relocation of our populations within our country So, government has to re-settle people in high-risk areas because of the landslides and all that. So, all that has unfortunately the impact again, maybe at the macro-level, it diverts resources from investment into poverty reduction initiatives to dealing with climate related issues.

But I would say from a point of view as the regulator for the financial sector, we haven't had any big impact on the micro; small, small challenges on a few borrowers, but generally speaking, the financial system remains stable for now apart from the bigger macro challenges on inflation and exchange rate movements.

Jean Pesme:

Thank you very much Governor. So, Sabine let me turn to you and go back to the global discussion. So, the NGFS: Network for Greening the Financial System first has grown a lot with a much more diverse representation than it had at the start, including more emerging markets, but also is looking at the climate issue and nature. So, there has been quite a bit of work on nature related financial risk, including the recent publication of a conceptual framework for assessing those risks and to guide the actions of central banks and supervisors. So, could you walk us through a little bit what NGFS is doing, what's the logic of the approach and what are the next step and how you plan also to engage regulators, supervisor and central bank on these issues going forward.

Sabine Mauderer:

Maybe before I start to go into the technical details, I think that the major question we first of all have to clarify is why should we now also take a look at or even care about nature? That's what I usually hear, because usually even in the central bank world, people say, well we do already deal with climate, so why should we now once again deal with something where we initially thought this is not our mandate. So, now we have another subject: nature. So, I think that still, many need to understand why this is important, that it is something different than looking at climate. Of course, the Governor just mentioned that draughts, floods, or whatever happens due to climate change has an impact also on the environment, especially waters missing and water's nature capital, that really matters. But let me just have a look together with you, and what actually do we understand under nature?

So, what is nature assets? What is nature capital, and why is it so important to take care of those? It is because nature, different kinds of nature assets, serve our society, be it food, be it pharmaceutical products, be it whatever we need. This is mostly based on either plants or wildlife or animals. So, just to give you an example besides water, just take the US pharmacy industry, 30% of all pharmaceuticals sold in the US are based either on plants or on animals, and that just tells you a story. And in addition to that, if you look at the WWF study that tells us that nearly 70% of wildlife has dropped from 1970. So, what it does is tell us this: you have 70% less wildlife, and you have 30% only in the pharmaceutical project in the US based on that. If you have cancer and need anti-cancer drugs, vaccination and so on, this is depending on plants and on animals.

So just to give you an idea how even if you do not get emotional about nature, right, you are all economists, you most probably do not get emotional, but if it comes to the figures, I think it really matters. So, what do we do at the NGFS? At the NGFS, we took a first step, we just published a framework to get a little bit of a common understanding of what actually is the meaning of nature assets, what is a nature asset, and which kind of categories do we have? Water, soil, forest, so a lot of different capital assets or nature assets. So then, to clear this up: what do we mean by nature related risk? What is actually a risk when we talk about nature? So, that was the first step. The second step, and as you may notice it is not as easy to understand like climate.

Climate, we have one metric: it's carbon emission. We just have to take care of carbon emission and we know how we could do that. We just are not capable of implementing those tools. When we talk about nature, it's much more difficult because we have water, or we have the soil, or we have the forest, or we have whatsoever, the animals, all of them that drop, and their explanation is triggered by completely different sources or reasons. So, what we now do at the NGFS is we start with case studies. So, we will pick one nature asset, I think we have not decided so far, so let me take soil, what does soil really mean for our economies? Second, what do insects really mean for our economies and how much value is their service to our economies? So that's important for us in the next step to understand and once we've understood that we will make then have a look at, so this that might be the macroeconomic impact nature, assets and threat to nature. Is it health and what does that mean for our financial system? Thank you.

Jean Pesme:

Thank you very much Sabine and very clear explanations. Thank you for walking us through what NGFS is doing and why it's doing it. So, Jean-Paul, we always discuss the role of the banks in this discussion. You're coming with a very different angle, which is the role of the capital market and securities. So, IOSCO, which you represent has been one of the first global standard setters to endorse the new sustainability board disclosure standard. So, what do you think are the roles, what is the role, why is IOSCO looking at this, why are these disclosure standards so important and they're also, their implementation will be critical and both the pluses but also the potential risk. What is at stake into that discussion on disclosure and rolling out what has just been approved.

Jean-Paul Servais:

Well thank you for your very useful question. Allow me first of all to say two things. First of all, to congratulate Babak and his colleagues for the birthday, congratulations. You deserve it, and I think it's important that in my capacity as IOSCO Chair because as you know Babak, Toronto Centre is an important stakeholder for IOSCO. We are managing many work streams together and recently my colleague from Spain, Rodrigo Buenaventura is chairing on this important STF-IOSCO: Sustainable Task Force, he had the pleasure to be interviewed by Toronto Centre. Second thing, thanks for your very objective statement, more than I would be as IOSCO Chair. Yes indeed, we are the first one to endorse ISSB standards. Maybe better that you're telling them than I am. But more seriously, I would say if I wanted to answer your question, I need to give in fact in a nutshell, in four minutes, less than four minutes, I would say answer to three questions. Why IOSCO? How are we working on this? Okay and when? That's about the time.

Why IOSCO? Quite surprising, ladies and gentlemen, I think that many people know me and that I am a doer. I am pushing the agenda of IOSCO every day in my life, but I don't belong to the group of people who would say IOSCO needs to be there everywhere for everything. There are many national initiatives, many regional, but here we are speaking about climate change and the starting point of this fascinating positive journey doesn't happen frequently for people like me that we have such a positive journey. Most of the time, the starting point is rather negative a crisis, how to learn from a crisis. Here, the positives of joining, ladies and gentlemen, are in fact in the room: it's you. Maybe you are a private investor, maybe you would like to understand in which product of companies you would like to invest and that they're in line with your expectation about ESG.

You are not interested at all in working with, I would say, an alphabet soup of different private of public standards, at national level no would like to have one toolkit. So, the challenge is global. The message must be global, let us be clear. But John and Mary on the street would like to know which kind of toolkit they could use but very rapidly; they're not waiting for us for a while. That's the reason why IOSCO must be there. IOSCO, I'm not sure that everybody knows what it means. 130 jurisdictions, global membership organizations, our national members are involved in the supervision of 95% of the whole financial sector all around the world. So, we have the capacity to manage this from a global point of view, the majority of our jurisdictions are coming from growing and emerging markets, which is also very important. When you speak about sustainable funds.

Then how are we working? I think that everybody agrees to the fact of saying that the financial sector, if the financial sector would like to have an added value in order to fight against climate change, it's not about technological aspect. The expectation about the financial sector is to be helpful for channeling savings to financing targets which are in line with ESG expectations. Therefore, we need a language, and the story for that is not an old story. Everything started, I would say less than three years ago in Glasgow; Finance Day, 4th of November, two important news pieces: GFANZ, an initiative of Mark Carney and the launch of ISSB. After two years, we are very far, let us be clear. Can you imagine that in two years' time, a new body was created at global level, they were able to appoint a board which really it's a good translation of diversity, not only about gender, not only about geography, but about background.

Then they drafted a standard, the draft prototype, they were able to find a Belgium compromise about multi-location and it works, and then we tried to challenge. First of all, we had to convince the IFRS foundation three years ago to work on it, and I can understand that there was some pushback from the foundation because it's about no, resources, but we were able to convince them. When I had the pleasure to be elected to less than one year ago, at Sharm el-Sheikh, COP 27, I talked to the agents more or less like this, okay, we will be back at the end of 2024 for the filing of the financial statement with a fully-fledged comprehensive tool. Not sure that many people believed me, but we are there. We were able to endorse in July with a lot of, I would say, press coverage maybe because many journalists were surprised that we were so fast.

Speed is important but it doesn't mean that we drop all the constraint about, I would say due process and decision-making process during, for more than one year we challenge, we require from IFRS foundation to change on standards about proportionality, scalability, inclusion, what do we do with the SMEs, what do we do with level three? What do we mean with safe harbor? Everything is there. We endorsed that in July and the objective, and that will be also explained in Dubai with the support of the IFRS, is that in order to help, we are a global membership organization, we must be helpful for all the NCA in order to have sufficient training, sufficient capacity building, and that's the reason why IOSCO was the first entity to approve the standards.

Jean Pesme:

Thank you, Jean-Paul, very clear. You mentioned a very important point, which is the mobilization of private capital to support all these efforts, be it on climate or on nature going forward. So, let's turn to the second round of question on transition planning and disclosure, because part of it is how to provide explicit strategies so that the financial sector intermediates the saving but also supports that transition to net zero as the next step for climate as well as nature. So, Stefan, turning back to you again and there's a lot of discussion on transition planning, it's also lots of things happening so sometimes a bit difficult to find one way on this.

So, what do you think are the roles of the central bankers and financial supervisors in supporting that transition and providing guidance starting with the banks on transition finance? What does that mean both in the context of advanced economy but also emerging markets?

Stefan Ingves:

Well first of all, and the institution where I used to work has been around since 1668, and from day one it was understood that the central bank, that's where the money is and that has, since 1668 and also so in the future created tensions. That brings us to really to the issue of what is the mandate. In the early days, and Sabine has also sort of referred to that, it was very easy to say this is completely outside our mandate. We'll have nothing to do with it. We will continue doing what we have always been doing as if nothing has happened. This is somebody else's business. But your first question that I will try to answer about the macroeconomic consequences, it's obvious that there will be macroeconomic consequences and that means that it sort of feeds back into your mandate anyway, like it or not.

So, it's probably suicidal over time to say we ignore this completely because economists and the world, the global economy will be affected. So, you need to think about, and you need to understand these things but, in many instances, actually within your mandate and I think that that is also what is expected of you regardless of whether you're talking about supervision or monetary policy because you cannot anymore say, this is somebody else's business. So, you need to internalize these things and think hard about how to deal with them. But within your mandate, and this of course differs enormously from country to country in some parts of the world, central banks supervisors are very independent and that means that they have to be careful when it comes to how they deal with this within their mandate so that they don't stray outside their mandate because that is going to backfire.

Then in a number of other jurisdictions and countries, there isn't really much of a mandate because basically the central bank, supervisory agencies are kind of part of the government in one way or the other, and then it gets more difficult, and back to my reference to 1668, then people understand that that's where the money is and let's use some of this money for all sorts of purposes. Then it gets very, very difficult and one has to be careful about the governance structure that you use, and one has to be careful, not too stray too far because if you spend too much money on whatever it is, that's going to produce too much inflation and macroeconomic imbalances in one form or the other. So, one has to be careful on that side.

I referred earlier to the timeframe; when it comes to monetary policy, most central banks produce monetary policy reports, let's say six to eight times a year. When it comes to financial stability, financial stability reports are being published once or twice a year. Then, given the timeframe, when it comes to climate, if you produce a climate report at all, let's say once a year, once every two, three years, something like that, and it's quite a challenge actually to combine these things in order to produce outputs that others can understand. When they read these things, they can say to themselves, a-ha, this is what the central bankers and the supervisors are doing within this field, and that's a challenge. Let me explain.

Suppose we are not successful, so global warming is more than one and a half degrees Celsius, well then of course you will have very serious consequences in many different parts of the world and that will affect how you think about these things. How you actually conduct supervision, how you understand what is going to happen, what happens to the banks, will they make credit losses?

How do they adjust to these things? Do we or don't we create a functioning market for bonds dealing with climate change?

On the other hand, let's assume for the sake of the argument that we're highly successful, so we're going to stay below 1.5 degrees, but to get to that point, that probably requires massive investment in transition technologies in one way or the other, and that is also likely to affect the banks and the security markets. Then we need to understand all of that, then we need to understand how to deal with sectors of the economy that simply have to cease to exist the way as we know them today, and we have to better understand what it implies when it comes to what the banks are doing, what others are doing, where the investments are going, and how to deal with that. And that will be quite a challenge actually to better understand that.

Particularly, if you look at the numbers today and look at, let's say there are various reports from different parts of the world. I speak about this thing from a European perspective, there aren't really any major catastrophic issues in the extreme short run but certainly things will change in the long run and how do we deal with that when it comes to reports? I do think it would be a good thing if the IMF and the World Bank jointly produced, let's say once every two years, or something like that, a kind of a joint report on the economic consequences of what is going on presently because you're the only ones who have the capacity to do that at the global level. You will have many reports at the national level, but that's the different things and then we'll take it from there. Thank you.

Jean Pesme:

Thank you very much Stefan, and indeed, I mean we have quite a bit of reports on climate change: the CCDR, which is the main tool of the Bank at the moment to analyze that at the national level. If I'm not mistaken, there was recently one for Rwanda actually. So, Governor, let's go back to Rwanda. So, the country has placed climate change sustainability of the economy at the forefront of the national strategy; that is likely to have implication on the financial system. There is also, in the case of emerging markets, that whole discussion between mitigation, resilience, and adaptation, which brings sometimes different elements from what we see in advanced economies. So, what is the National Bank of Rwanda doing? As you mentioned earlier, inflation: there is an impact from a financial sector perspective, maybe not now. So, how are you also reconciling these different timeframes?

The Honourable John Rwangombwa:

Yeah, thank you. I think you talk of timeframes; we are in challenging times with a lot of emerging issues. I think Stefan stressed the point of central banks sticking to their mandate. Unfortunately, the challenges we live in today keep on stretching and challenging us look at other factors that will challenge our mandates.

And I just want to stress, again, the point touched by Stefan on the independence of central banks; we are happy that our central bank is independent, and the key mandate is financial stability and price stability. But talking about the relationship or what we do to support the shift within the financial sector, in line with the challenges we are facing of climate change, we see it from two angles. One is at the primary mandate of the central bank of financial stability. How do we ensure that the challenges or the risks associated with climate change don't destabilize the financial system. So, that is from the financial stability point of view, but also we talk of shifting from brown financing to encouraging financial institutions to support green projects for sustainability purposes. So, do we have a role to play as central banks to encourage or to support green financing by our financial systems?

So, as I said earlier, we are really taking on a lot of initiatives today as the National Bank of Rwanda, but working with our colleagues within the government and other government partners to see how we can position ourselves, as a country, to align with the key orientation of the government having environment and sustainability are the key ingredient of a environment programs. So, one, we've worked with our colleagues to define a national green taxonomy that is really at the beginning of any serious or sensible channeling of resources to green projects or to sustainable projects. So, we are finalizing this at least to support the financial institutions to understand what they, if they deal with this project, how does it fit into the green economy part of that. Then as I said, we, are just beginning, we ourselves the financial institutions, there's a lot that we have to learn on what it means to promote green financing or what are the risks associated with climate change and which we have the fiscal risk, we have the transitional risks, and the rest. Which channels are most likely going to hit us as a financial system? What are the challenges linked to this? How do we deal with that? So, we are working with the financial institutions to really understand this.

Thanks to Toronto Centre. Toronto Centre has been our key partner in training our own teams in understanding risks associated with the financial sector in general, but now specifically on climate change risks. We've had sessions with both on the banking side and on the insurance side; we happen to be part of the insurance sector as well. So again, we worked with other partners to come up with the sustainable finance roadmap that redefines what we are going to do as key players within the Rwandan market and we as a central bank, among the eight key strategic pillars of this roadmap, we are going to be contributing to five of them, and we've identified this now we are looking at ourselves, we've just done again an assessment of us as a central bank; are we ready to deal or to play a part in one, safeguarding our institutions against climate change, but also supporting sustainable financing. With that analysis, analytical work, then we are coming up with our own action plan. We've just introduced, we call it the Sustainable Financial Center or Sustainable Finance Unit within the central bank to lead the initiatives and guide us on what we need to do as a central bank. Again, we understand that there's a lot of new things and challenges, so we are out to work with the partners globally and I'm happy to be sitting with the chair of the NGFS on this panel. So, we joined the NGFS last year, and we appreciate being part of this central bank family that is trying to work together to support each other on how we deal with these challenges we are facing.

So, I think briefly that's what I can say what we are trying to do. But of course, one key factor that I should have said now in relation to the financial stability mandate is we by the end of this month we'll be issuing guidelines to the financial sector on what we expect, how we expect them to position themselves to deal with the challenges of climate risks, whether in terms of governance, in terms of their strategic planning, in terms of their risk management, and then, on the disclosure. So, we're issuing the guidelines by the end of this month, but we've also just incorporated climate risk as part of our risk profile that we track as a central bank. Plus, also introducing, do I call it climate risk or environmental friendly practices in our procurement policy. So, as we put out offers like, for example, currently we've put out an offer to print our currency and environmental matters are part of what we consider for the competitors of this offer. So, briefly that's what can be said. I think I said there's a lot, it's really a new area that we are all entering into, but I'm happy that we have partners. I said NGFS, we working with the World Bank itself, just mentioned that. IFC, Agence Française de Développement, has been a key partner in this. So, we are really working with different partners to try and understand better how we can play our role as a central bank but how we can also support our financial institution in this transitional period we're in. Thank you.

Jean Pesme:

Thank you very much governor. So Sabine, NGFS work on this was mentioned several times, so now we see an increasing number of countries making net zero commitment but also companies, banks and other financial market players and investors, and that was a big topic of discussion also at the last NGFS plenary, the role of transition finance and transition plans. So, what's the NGFS approach, what potential do you see there but also challenges and the importance of peer learning also on how this is one.

Sabine Mauderer:

Maybe before I start alluding to this particular question, why is it important to have transition plans? First of all, I think you mentioned just Glasgow and all the pledges we receive from banks, from companies, from governments and so on, and two years later we see pledges are easy to do; implementation is another story. So, I think therefore it is extremely important that we need to have some proof that, what is in a strategy, that those pledges are really get implemented. A second point, why we really have to care about transition, not only greening, is that three years ago, we talked only about how do we mobilize money for green projects, right? It's just about green as of today. And now, it's understood that especially in the global north, but I would say globally it is really important that we move the existing economies through this whole journey to net zero.

And this is I think even more challenging than mobilizing money for green projects. So, having said that, it is extremely important for the companies or financial institutions themselves to have a strategy; How do I get there? I have a mission right now, so what is my next step within the next five years? What do I look like in 10 years' time, or even 15? So, this I think has two advantages. The first advantage is that the company themselves, be it in a real economy or a financial institution, is forced to have its own strategy in place. How they're going to get there and what they need to change and how it affects their business model. And the second advantage for having a transition plan in place is that now investors get an idea of how serious this company is when it talks about transformation; other figures and facts that really show they have an idea, they have a plan actually for the next five, 10 and 15 years. So, that's the reason why we at the NGFS think this is a really important tool.

So, let's quickly, what do we do to support this development of having more transitions plans? We did a stock taking and we found out, so amongst our members, there is a broad confusion about what our transition plans are. So, we got answers like "transition plans is about this..." so transitioning, transition, all those words, completely different understandings. Then we found out that there are some first standards when it comes to transition plans, but usually it's unclear what actually do we expect companies to report? What are the standards we can check against and who really takes care of what companies are writing, who has a look at it and makes sure that this has some substance at all. So, the next step, what we will do is we will send out, within hopefully the next few weeks to financial institutions, a survey and asking them, the financial institutions, what you banks, what do you really need, what kind of data and information do you need to prepare your own transition plans and what information and data do you need from your clients?

So, from the real economy, to maybe have an understanding of their transition plans. So, that's what we intend to do.

Jean Pesme:

Thank you very much Sabine. So, you mentioned investors; a deeply, very important role. On that, natural transition to Jean-Paul. So, what is IOSCO doing on financing transition plans? What's your unique role and what do you see emerging as opportunity and challenge in your membership?

Jean-Paul Servais:

I think Jean, the best answer to your question is to say, first things first, I would say we believe in the added value of a realistic transition plan. But if you want to ensure that it works, it means that the financial sector must have access to reliable, forward-looking information. It seems to be very easy to do, absolutely not. We all know what it means; forward-looking information, especially when we link that with materiality from a financial point of view and about the quality of financial disclosure. So, it means that if we want to be successful, it means that the financial sector must have access to reliability, forward-looking information from the real economy and the purpose is to allocate capital effectively. But I would say for this, the starting point is first thing, first, first we had to have the capacity to speak the same language.

That will be the case with the use of ISSB standards has endorsed by ISSB and then the support of the G20 FSB. So, it means, I'm not sure that everybody knows that in the room, it means that according to our own expectation computation, in the future in some years, more than 130,000 companies will use the same language. 130,000 company. CSRD in Europe, with or without the SMEs: that's a debate at the political level for the moment. I would say in Europe it means already 45,000. So, in Belgium it means for instance, 10 times more than the companies using for the time being, the well-known accounting standards, which are applied for more than 20 years. But what does it mean, we have the capacity to use to speak the same language? Then it has to be implemented. Thanks to the IOSCO endorsement, it means that jurisdiction know if they have capacity to adopt, to apply, or to be informed by ISSB standards. Before the end of the year, we will have a fully-fledged toolkit related to the use of audit standards.

If we want to avoid greenwashing, we need to have, a technical, and I would say an ethical standard on board; that will be the case. We are challenging the work produced by the two SSB working under the umbrella of the PIOB. Then what does it mean? We have a toolkit for financial reporting standards. We have a toolkit for audit standard, no, we have to implement it. We will be there. So, it means that we have the capacity to use more and more data. It means that what the TCFD, GFANZ is working with the project CDSC, we will have a database and what does it mean: a virtuous circle? The day that we will have more data, it means more capacity to make progress support scope three with safe harbor. I would say during the transition phase and the day that we have that, of course that's the best starting point for transition plan.

We have also already decided to launch, I would say I worked in, but again, the debate is to avoid, and I speak under the leadership of Sabine Mauderer, the best spoke woman about transition planning. But I think, correct me, the idea is to avoid fragmentation. There are a lot of excellent initiatives. For instance, Monday; announcement by the UK Transition Plan Taskforce for them, the same in Singapore, the same in the US, which is I think a very useful paper published by the US Treasury on voluntary principles highlighting emerging best practices. The same of course in Europe with the famous, the acronym is incredible, the CSDD, which will be an update of the CSRD. The question at the end of the day is of course to avoid fragmentation and that's the reason why IOSCO will also be on board.

We have already set up a work stream and we are working already with, I would say a different network because our main objective when we speak about transition plan, it's about investors, and of course, how to avoid greenwashing, and the best way to avoid greenwashing is to avoid to use different toolkit.

That's the reason why we will develop good practices with regards to transition plans. If we consider the risk sufficiently important because, let us be clear, I would say greenwashing is the main negative objective for us because if the trust disappears from our citizens, from investors, that will be a real challenge for everything. Because, I presume that you have some children, most of them when you discuss about climate change, greenwashing, greenwashing, also my own kids; I have to explain what we are doing. No, it's very easy to say greenwashing. We don't believe in nothing. No, we are doers. We try with a building an approach, first of all to have a common language; that's the case with the ISSB standards. We implement it, we will extract more and more data and the fact that we have more data is by definition the best synergy for being supportive of transition plan.

Jean Pesme:

Thank you very much. So, it's already 1101, so I don't know, I hope the panelists have five minutes; just to open to the floor for one question, a lot of information was already shared, also a lot of information on what's happening, both the potential but also the pitfalls. So, if there is one question in the audience, then we will close on that. Anyone? Yes, at the back.

Hans Granberg:

Thank you. Hans Granberg. Fascinating panel discussion. One question related to transition, but it also relates to the kind of instruments that one might have to use in order to deal with climate change issues. I think those instruments are really related to taxation, carbon taxes, and other sort of things. How is that taken into account when we ask companies to think about the transition, their transition methods if they don't know where those taxes are going to be imposed, in which countries, on what industries, and so on. And that's what I find to be a very important and very difficult coordination mechanism between countries and as well as between central banks and finance ministries.

Jean Pesme:

Sabine, you want to take this one?

Sabine Mauderer:

I think you addressed a really important topic. So, what we just discussed about the lack of private finance. So, our key issue is how can we mobilize more private investors? And the major obstacle for private investors is to have security. There is this insecurity, and what you address exactly is one of the biggest point of uncertainty. What will be the political and the legal framework for my future investment? I would say that all jurisdictions who have understood that private investors need a security, a framework that gives them certainty of success, at least in this regard has clearly a competitive advantage. So, I think this must be understood.

Jean Pesme:

Yeah, Stefan?

Stefan Ingves:

Very quick comment. I think that in an imperfect world, don't expect first best. You have to try to engineer some minor successes here and there and then you sort of build on that, hoping that it kind of catches on because it's so common, if you're a good student of economics to go for the first best, and since that's not going to happen, you say there is nothing I can do and then you just throw up your hands and that's not a good strategy. So, you just have to live with these imperfections and try to improve things as you go along.

Jean Pesme:

Okay, so let me close here. Thank you very much to John, Jean-Paul, Sabine, and Stefan. Thank you very much to everybody in the audience, this is clearly not a discussion that is closed. This is an ongoing discussion. So, thank you very much also for highlighting how much work is going on. The challenge of implementation I think was one that was really stressed across the board and that we see everywhere in the world. And thank you very much to the Toronto Centre for serving also as a convening power in addition to all the work that you're doing already with a lot of countries and that was very much recognized today. So, thank you very much everybody, ongoing discussion. Thank you.