

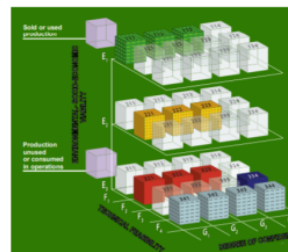


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# UNFC and Sustainable Development

Risks and Opportunities from a Commercial Perspective

Donald Lessard



VIRTUAL WORKSHOP

How the United Nations Framework Classification for Resources (UNFC) can help channel investments into energy and resource projects for sustainable development

11 March 2021 17:00 - 18:30 CET



# Risks and opportunities in the energy transition

## The SDG energy challenge



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- SDGs require providing energy to growing global population coming out of poverty
- SDGs require reducing and then eliminating greenhouse gas emissions (GHG), affecting the 70-80% of today's energy production that comes from fossil fuels
- SDGs require reducing/eliminating local particulate and other emissions
- SDGs require a new social contract
- Meeting the SDGs will require significant changes in policies that impact industries and capital allocations

# Risks and opportunities in the energy transition

## The impact of policies on valuation



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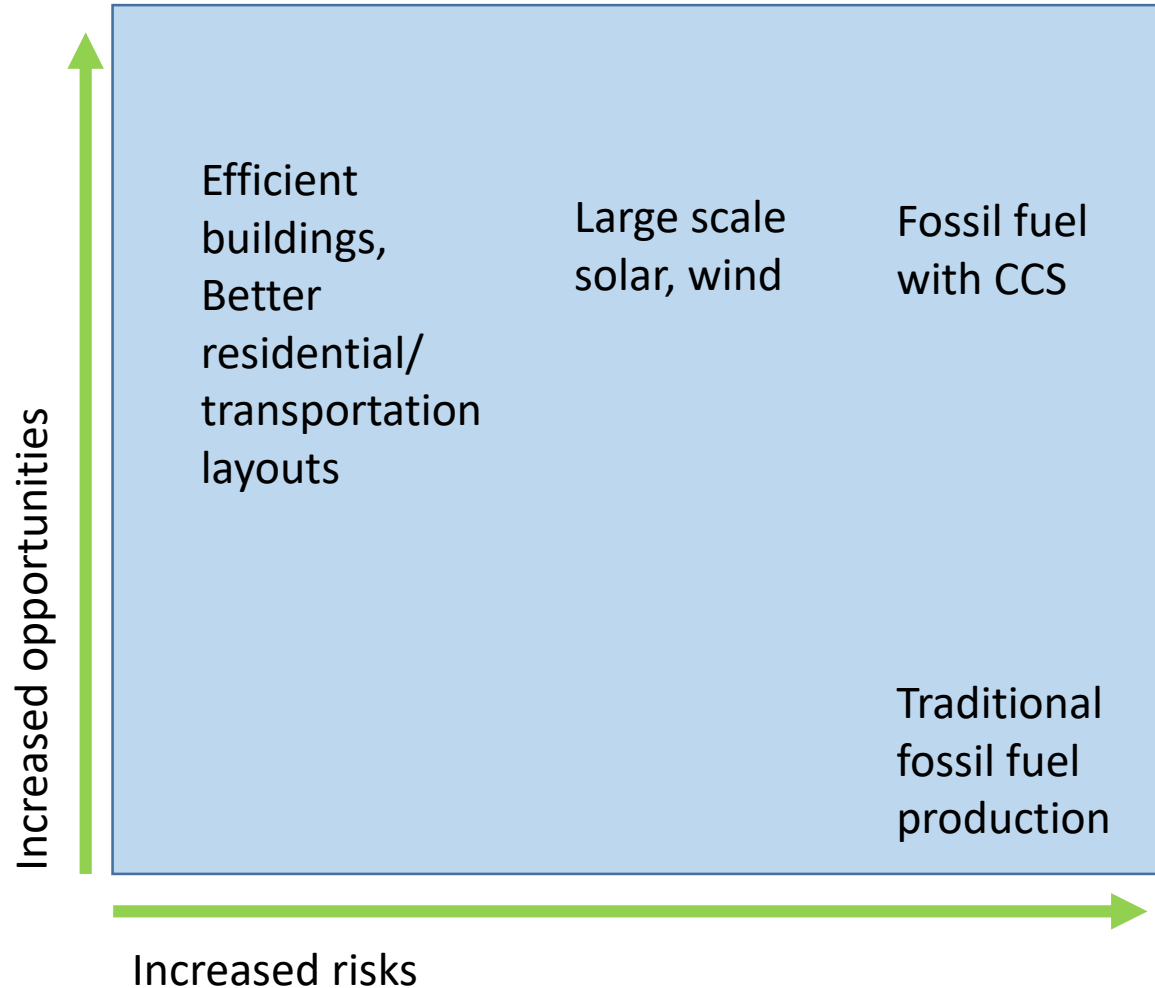
- Decisions regarding the development and operation of energy producing assets hinge on commercial valuation
- Commercial value is generally defined as the net present value of free cash flows.
- Policies regarding environmental and social effects have a direct bearing on valuation
- The form and timing of these policy changes is uncertain, with many possible pathways
- Risk and opportunity effects commercial valuation in two ways
  - Impact on (probability weighted) expected cash flows
  - Impact on discount rate and/or the cost of options to mitigate risk and capture opportunity

# Risks and opportunities in the energy transition

## SDGs will create risks and opportunities



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# Risks and opportunities in the energy transition

## Policy scenarios



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- Any valuation requires a scenario/forecast of what the relevant policies will be over the lifetime of the project
- Three sets of standards/regulations may be foreseen:
  - Local regulations/standards currently in place
  - Most stringent standards applied in major region
  - A selected SDG-compliant global standard.

# Risks and opportunities in the energy transition

## Classifying SDG Impacts



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- Key question is the extent to which a particular standard impacts the commercial value of a project

Red

- Major impairment of commercial value

Orange

- Substantial impairment of commercial value

Green

- Very small or not impairment of commercial value

# Risks and opportunities in the energy transition

## Values must be computed at multiple levels



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- Project
  - Asset
  - Portfolio
  - Enterprise within jurisdiction
  - Jurisdiction
  - Transnational Enterprise
- 
- UNFC will focus on project level, where the primary go/no go decisions are made, and which can be aggregated upward to other levels

# Risks and opportunities in the energy transition

## Capital market reactions



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- The capital market is becoming increasingly concerned about the value at risk in their investment portfolios and see merit in contributing to reaching the SDG.
  - The International [Financial Reporting Standards Board](#) have gone through a consultation process -- 577 responses, most of them in favour of IFRS sustainability standards being developed.
  - The Financial Stability Board, whose members have a large part of the capital market under management has issued a consultation paper on climate related financial disclosures.
  - The two organisations work together.
- UNFC with its project focus informs and complements these efforts

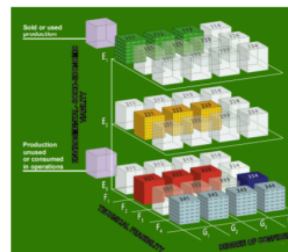


# Thank you

Donald Lessard  
Professor Emeritus  
MIT Sloan School



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