I4CE INSTITUTE FOR CLIMATE ECONOMICS
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CLIMATE BRIEF N°72

The limitations of voluntary climate commitments from private financial actors

Private finance will not fund the transition without a major commitment from public authorities

Autor: Michel **Cardona**

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EXECUTIVE SUMMARY

- **For several years, and particularly since COP 26, considerable time and energy has been dedicated to the subject of voluntary commitments from private financial actors. These commitments, made within the framework of international initiatives, are expected to enable private finance to be mobilized for the transition to a carbon neutral economy.**
- **Such initiatives, however, encounter powerful structural obstacles that limit their effectiveness. While beneficial and worthy of encouragement, we cannot expect these initiatives to deliver more than they are realistically capable of achieving. Indeed, while they can accompany actors already engaged in economic transformation, they are incapable of making a more decisive contribution to the transition.**
- **This observation leads us to call for a strong commitment from public authorities. This commitment, just like for other economic agents, will be essential to mobilize private finance to support a rapid and organized transition.**

According to Mark Carney's statements[1] at COP 26, the Glasgow Finance Alliance for Net Zero – GFANZ, a voluntary coalition of 500 financial actors with $130 trillion in assets – was destined to be a game-changer in financing the transition to a carbon neutral economy.

But should we rely on this voluntary approach? The answer presented in this Climate Brief is no. Although useful and led by people who are truly committed to the cause, we cannot expect too much from these initiatives to mobilize private financial actors in favour of the transition, given the limited effectiveness of voluntary commitments. Conversely, an approach based on the strong commitment of public authorities seems essential.

This public commitment must be based on a wide range of instruments, including financial regulation, whose role is essential when it comes to financial actors.

The first section of this document analyses what we can realistically expect from financial actors in terms of funding the transition. The second section presents the reasons why voluntary private initiatives cannot play a decisive role, despite the impressive volume of assets managed by the actors who have made these commitments. The third section returns to the decisive role of public authorities in mobilizing private finance.

1 "The core message today is that the money is there, the money is there for the transition, and it's not blah blah blah" United Nations UN News, 3 November 2021.

1. WHAT CAN WE EXPECT FROM PRIVATE FINANCIAL ACTORS IN THE TRANSITION?

Before considering what can be expected from the voluntary initiatives of private actors, it is necessary to clarify the role of private financial actors in funding the transition.

1.1. What is meant by mobilizing private financial actors to fund the transition?

This indirectly raises the question of the role of finance in the economy. A vision based on the total neutrality of finance - which would be limited to financing the needs expressed by economic agents - does not correspond to the real world. The reality is more complex. Financial actors must of course accompany and satisfy the demands expressed by economic agents. But financial actors, certain ones in particular (see below), also play a proactive role in "guiding" the economy. This is particularly the case when they select projects to be financed with regard to the risks and opportunities that they present based on their assessment of the prospects for the development of the economy (potential of a technological innovation, possibility of a structural change in a market, etc.).

Regarding the transition in particular, it is vital that financial actors support the call for funding expressed by certain virtuous companies seeking to decarbonize activities or develop climate solutions. But they must also encourage other companies to rapidly initiate the transition of activities that can be decarbonized, or to reduce or even cease activities that cannot be sufficiently decarbonized. Financial actors must be motivated to take such action not only through a commitment to the climate cause or for philanthropic reasons, but first and foremost they must see it as acting in their own interest. Such steps are essential to limit their own climate change risks – including the risk of legal liability – and to increase their opportunities for future profitability.

TO FINANCE THE TRANSITION, ACTORS MUST:

- CEASE THE FINANCING OF CERTAIN EMITTING ACTIVITIES
- FINANCE "SUSTAINABLE" ACTIVITIES
- FINANCE THE DECARBONIZATION OF THE ECONOMY

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To "finance" the transition to a carbon-neutral economy, financial actors must carry out – at the analytical level – three different roles:[2]

- Cease the financing of high-emission activities that cannot be decarbonized (coal, gas, oil, etc.)[3] and manage the phase-out of these activities (including identifying and financing the closure of stranded assets);
- Finance activities that are already "sustainable" (*e.g.* renewable energy) or the development of "climate solutions" (*e.g.* hydrogen);
- Finance the transformation – the decarbonization – of all economic sectors, including high-emitting sectors that we cannot do without (agriculture, cement, steel, cars, etc.), the energy renovation of buildings (housing, service industry, etc.), and all other economic sectors that will be indirectly affected by the transition (tourism, health, etc.).

Financing the transition is therefore not only about additional financing for "green solutions". In fact, it relates to almost all of the activities of financial actors that must be transformed and adapted to fulfil the three roles identified above.

This financing will have to be provided by both public and private actors. Public finance has a key role to play: it must provide "patient" finance for projects that are higher risk or unprofitable (or where the prospect of profitability is too distant). In Southern economies, the role of public finance is even more important, due to the higher proportion of risky projects. However, given the amount of investment required and the public sector funding constraints that exist in all countries, private finance will be needed in both Northern and Southern economies. Moreover, the issue is not only about providing additional finance (which too often translates into the notion of a dedicated "green finance" niche); it is the whole area of finance that must be transformed for the benefit of the transition. The issue is to know how to mobilize private finance as quickly and completely as possible.

1.2. What role can the different "private finance" actors play in the transition?

Private finance therefore has an active role to play in mobilizing finance for the transition. But this role is differentiated, depending on the nature of the financial actors. There is no single role for all actors, but rather there are various roles that are closely linked to the characteristics of the different components of private finance activity.

2 Although in practice these roles may partly overlap.

3 According to the analyses of both the IPCC and the IAE, coal production will have to be completely phased out, while residual oil and natural gas production will still be needed at the end of the transition.

1.2.1. Financial actors have different roles in financing the economy

Generally speaking, we can distinguish two types of finance.[4]

Firstly, **"primary" finance** provides economic agents (non-financial companies, households, etc.) with funds to finance new investments. This finance category includes the following activities:

- Credit, distributed by banks, which is the main vector of monetary creation and increases the sums of financing granted to economic actors (except when simply an issue of refinancing pre-existing credit);[5]
- Private equity, which provides capital to companies that cannot access either financial markets or bank credit due to their size and/or the risky nature of their projects;
- The primary financial market (*i.e.* the issue of new shares or bonds) when these new funds increase the volume of financing available (and not simply the repayment of securities).

Secondly, **"secondary" finance**, which is a type of "refinancing" of pre-existing financial assets that does not bring additional financing into the real economy (but only to financial actors). In this category, we include:

- The secondary market in financial assets (*i.e.* exchanges of existing shares and bonds), which is a zero-sum game: for an asset to be bought by one actor, it must be sold by another. While for the company issuing securities, there is no direct impact resulting from this change in the holders of these securities. Thus, exclusion or divestment policies have no direct impact on non-financial companies, while empirical studies struggle to demonstrate the existence of a significant indirect impact via prices (except in the cases of broad collective initiatives). The main actors in financial markets can be found in the secondary market: those investing on their own behalf (sovereign wealth funds or insurance organizations, for example) or on behalf of third parties (pension funds, for example) and portfolio managers;
- Bank credit when it refinances pre-existing credit.

Some financial actors are only involved in one area of finance (*e.g.* private equity actors are by nature associated with "primary" finance). Whereas other actors may participate in both sectors (for example, investors may take up newly issued financial securities or buy back existing securities on the secondary market).

1.2.2. Each type of "finance" has different roles to play in the transition

"Primary" and "secondary" finance have roles to play in the transition. While both are essential, these roles are different. It is important to be very clear about the expectations we can have for both.

"Primary" finance can have the most important impact on the transition in the strictest sense, because it can provide additional capital to make new projects possible (green or decarbonization projects) and cease the flow of capital for others (stop financing new fossil fuel expansion projects, for example). Primary finance meets the additionality criterion which the vast majority of experts consider to be necessary for a financial actor to have an "impact" on the transition:[6] this means that funding is made available to projects that would otherwise not have been financed, which thus ultimately affects the amount of GHG emissions in the real economy.

Primary finance actors can therefore be expected to fulfil all three private finance roles in relation to the transition, as defined in the typology presented in section 1.1.

Consequently, banks and private equity firms have a key role to play in this area. This is also the case for actors involved in the issuance of new financial assets (arrangers, underwriters and investors).

In contrast, "secondary" finance has no direct impact on the transition in the sense of additionality, because it does not finance new assets but only "refinances" pre-existing financial assets. Consequently, it cannot wholly fulfil the three roles defined in the previous typology; even though this type of finance remains useful, its contribution is necessarily more limited. We can only expect the following functions from "secondary" finance actors:

- Putting pressure on companies that conduct activities that should be abandoned or drastically reduced (particularly in the fossil fuel sector). However, the method by which this pressure is exerted is subject to debate: indeed important questions are being raised about the impact on the real economy (the emission levels of non-financial companies) resulting from divestment operations practised by certain financial market actors.[7] The preferred method is now a policy of engaging financial actors with non-financial companies to put pressure on them (through dialogue or voting at general meetings). These engagement policies can have an impact on the behaviour of companies but, without the leverage of financing, they are time-consuming and difficult to implement (notably because they require coordination between the various holders of securities).
- Accompanying the transformation of the economy by facilitating the financing of transformation that has already been decided by non-financial companies. This accompanying role is more passive than the previous one and aims to provide the necessary financing to non-financial companies whose activities are already sustainable or that have already committed to the decarbonization of their emitting activities. In this way, financial actors accompany – rather than hinder – the transition undertaken by non-financial companies. It should be noted that this is what can ultimately be expected of most private initiatives advocating the alignment of their portfolios with a 1.5°C or 2.0°C pathway or with carbon neutrality, particularly those encouraged by investors now part of the GFANZ group (see below).

It is important to emphasize the consequences that can be drawn in terms of implementing the relevant indicators for monitoring the actions of different financial actors. Indeed, different instruments will be needed to assess the mobilization of the different categories of financial actors.

4 See for example "L'illusion de la finance verte" by Alain Grandjean and Julien Lefournier - May 2021.

5 In the case of mortgages for the acquisition of old properties, the volume of financing increases, but they are applied to an existing stock of real assets. Their impact is therefore different but far from negligible in the case of transition. These mortgages can indeed be an opportunity to reinforce energy renovation operations.

6 See for example "Can sustainable investing save the world? Reviewing the mechanisms of investor impact" J. Kolbel et al. – Organisation & Environment 2020 or "The guide to classifying the Impact of an investment" Impact Management Project 2018.

7 The shares sold in the context of a divestment operation are in fact necessarily acquired by other actors who are more often than not less scrupulous with regard to the climate than the financial actors selling them.

- For those involved in "secondary finance", the overall indicators for assessing alignment – over and above the many questions raised on the methodological level – aim primarily to measure the consistency of financial portfolios with the evolution of the economy in terms of transition.[8] To a large extent the same applies to the indicators used to assess the pathways of financial actors towards carbon neutrality (reduction of the carbon footprint of portfolios and of the carbon intensity of financed companies).
- For "primary finance" actors, such alignment or carbon neutrality indicators do not enable the assessment of their real contribution in relation to what they are able to do. Priority should therefore be given to analysing two aspects: firstly, the quality and monitoring of the instruments used, primarily transition plans which enable the understanding of the overall strategy and resources mobilized by financial actors[9]; secondly, impact indicators: *e.g.* the evolution of the portfolio structure with regard to the European taxonomy, or the share of property portfolios that have benefited from energy renovation financing compared to national targets, or the share of financing granted to companies that have made credible commitments – validated by third parties – in favour of the transition and that have actually been implemented.

THE DIFFERENT ROLES OF FINANCIAL ACTORS IN THE TRANSITION

	"Primary" finance	"Secondary" finance
Definition	Providing economic agents with additional financing to make new investments	Refinancing of existing financial assets without additional financing in the real economy
Activities covered	- Private equity - Bank credit - Primary financial market	- Secondary market for financial assets - Refinancing of pre-existing bank loans
Impact on transition	Most significant impact on the transition in terms of additionality (enables new projects)	No direct impact on the transition in terms of additionality
Roles	- Ending the financing of high-emission activities, - Providing new financing for "sustainable" companies and climate solutions - Financing new decarbonizing activities of companies	- Putting pressure on companies engaged in activities that must be abandoned or transformed - Supporting the transformation of companies already engaged in the transition
Measurement of role played	- Alignment or carbon neutrality indicators do not enable the assessment of their real contribution - Analysis of transition plans and the monitoring of impact indicators	Global indicators for assessing carbon alignment or neutrality can measure the consistency of financial portfolios with economic evolution in terms of the transition.

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Finally, an apparent paradox must be highlighted: it is secondary finance actors who are the most committed and active regarding "responsible finance", with considerable sums of capital under their management, even though its potential impact is the most limited. This paradox raises questions about the real impact that can be expected from the voluntary initiatives of private financial actors.

8 See for example "The alignment cookbook: a technical review of methodologies assessing a portfolio's alignment with low-carbon trajectories or temperature goal" – J. Raynaud et al. - ILB August 2020.

9 See for example "Include mandatory banking transition plans with Pillar 2" J. Evain and C. Calipel – I4CE April 2022.

2. VOLUNTARY INITIATIVES WILL BE INSUFFICIENT TO MOBILIZE PRIVATE FINANCE

The recent period has been characterized by the emergence of a large number of private initiatives, the stated purpose of which is to lead the different categories of financial institutions to provide the financing needs required by the transition to a carbon neutral economy. For example, in May 2019, IIGCC[10] launched the Paris Aligned Investment Initiative (PAII) to enable investors to align with the Paris Agreement goals, while in September 2019 another investor group created the Net Zero Asset Owner Alliance (NZAOA) to drive investors towards "carbon neutrality". In April 2021, ahead of COP 26, this development reached its peak and affected all financial actors with the creation of Mark Carney's Glasgow Finance Alliance for Net Zero – GFANZ, which brings together a large number of major financial institutions managing a considerable amount of capital within seven member alliances[11] (in Glasgow, it was announced that there were 500 financial institutions managing $130 billion in assets).

It would, however, be a mistake to assume that these voluntary private initiatives will be a decisive force in mobilizing private financial actors to the necessary extent. Such initiatives are affected by several limitations which, despite the considerable sums of money mobilized on paper, greatly reduce their effectiveness.

2.1. The voluntary nature of these initiatives

The voluntary nature of these initiatives leads to several weaknesses.

Firstly, these initiatives are launched by different categories of financial actors, who define their own approaches, objectives, indicators, etc., leading to:

- **considerable heterogeneity in the methodologies used, which suffer from numerous weaknesses:** transition scenarios of varying degrees of ambition, limitation in terms of emission scopes covered (particularly the total or partial absence of scope 3), targets that use different metrics, differences in the consideration of carbon capture and storage mechanisms and of off-setting mechanisms, etc.
- **questionable levels of actual ambition:** use of targets that are more often related to carbon intensity than to actual GHG emission reductions, overly optimistic assumptions about the effectiveness of carbon capture and storage technologies, frequent absence of targets in terms of reducing fossil fuel financing, etc.

Many observers have studied these characteristics[12] and their analyses remain relevant today, even if it must be recognized that initiatives, notably under the aegis of GFANZ, have endeavoured to correct certain weaknesses, and that adopted approaches are now more global (see the role of the transition plans recommended for moving towards carbon neutrality: financing i) companies that are already aligned, ii) the technical solutions necessary for the transition, iii) the transition of GHG-emitting companies, and iv) the organized and gradual withdrawal of high-emitting assets).[13]

Furthermore, these types of voluntary initiatives are inherently unable to "sanction" members who sign up to commitments but fail in their implementation. It is therefore impossible to ensure that commitments made are actually met, while initiatives have to rely on the effectiveness of "market discipline" to hope for the implementation of commitments.

Finally, those who participate in these initiatives have the power to call for commitments to be reduced if they consider them to be excessive. Such initiatives are thus structurally inclined to find agreements on "lowest cost" proposals. This was illustrated by the recent threat by several large US banks to withdraw from GFANZ on the grounds that some fossil fuel commitments put them at risk of legal action in US courts under anti-trust laws. This threat led GFANZ to distance itself from the UN's Race to Zero initiative because of its targets for reducing fossil fuel financing.[14]

2.2. The inadequacy of this approach in relation to the different roles of financial actors

The public debate on initiatives has so far focused on their flawed methodologies and their actual levels of ambition. However, we also need to ask more fundamental questions about this type of approach: what is the relevance of the "carbon neutrality" concept for a financial company? This concept – the conditions of which the IPCC specified in its 2018 report[15] – only takes on its full meaning at the societal level and that of the economy as a whole. Its application at the company level must be carried out with caution, as ADEME[16] has indicated. It appears that an individual entity cannot be carbon neutral on its own: it can essentially "contribute" to the transition to a carbon neutral economy.[17] For a non-financial company, this contribution is mainly achieved through the reduction of its own GHG emissions or those of other actors enabled by its activity.

10 The Institutional Investors Group on Climate Change.

11 Net Zero Asset Owner Alliance, Net Zero Banking Alliance, Net Zero Asset Manager, Net Zero Insurance Alliance, Paris Aligned Asset Owners, Net Zero Financial Service Providers Alliance and Net Zero Investment Consultants Initiative.

12 "It's not what you say, it's what you do" Reclaim Finance November 2021 – "The problem lies in the net" Finance Watch June 2022.

13 ''2022 Progress Report" GFANZ.

14 The Target Zero campaign, launched in 2021 by the United Nations, mobilizes over 11,000 non-state actors to support the implementation of carbon neutrality through immediate and rigorous action. In June 2022, it specified that its members were committed to reducing and phasing out financing for fossil fuels, including a commitment to stop financing new operations, including coal.

15 "Special Report on Global Warming of 1.5°C" IPCC 2018.

16 ADEME Position paper - «Carbon neutrality» May 2022.

17 "10 Principles for an ambitious corporate climate strategy" Net Zero Initiative June 2022.

But what about financial actors? It is well known that almost all of their emissions are scope 3, *i.e.* they do not come from their own activities but from the clients they finance ("financed emissions"). How can non-financial companies best contribute to the transition: is it simply by reducing financed emissions (without verifying whether this reduction corresponds to emission reductions in the real economy) or is it by financing the economic transition itself, which does not necessarily – or at least not immediately – translate into a reduction in financed emissions?[18] It is clear that financial actors are expected to play the latter role, even if it means a temporary move away from a reduction of their financed emissions.

Moreover, this approach to the concept of carbon neutrality was first developed by and for financial market actors (investors and asset managers). These approaches and methodologies were then applied to other financial actors (notably banks and insurance activities). This was carried out without accounting for the different roles of these financial actors (see section 1 of this note).

Ultimately, this approach applies mainly to "secondary" financial actors, who by nature have a relatively limited role in the transition. In fact, the methodologies are aimed more at "accompanying" the transformation of non-financial actors, rather than at having a real impact on the transformation. The approach aims to help financial market actors evolve at the same pace as the economic transformation, to ensure that there is no slowdown in the financing of companies that embark on the transition. To have greater expectations is therefore delusional.

Conversely, these types of approaches seem insufficient as a way to encourage "primary" finance actors to play a more active role in economic transformation.

2.3. Structural obstacles to the effectiveness of voluntary approaches by financial actors

The intrinsic characteristics of wider financial markets prevent financial actors from rapid transformation and from being proactive in the transition.

Indeed, they are faced with a double paradox:

- The risk-return trade-off currently predominates decision-making among financial actors compared to other considerations. However, there is an intrinsic contradiction in seeking to be proactive in favour of the transition while trying to maintain the risk-adjusted financial returns currently expected on the financial markets. Indeed, it would be necessary for actors to abandon activities that are highly profitable in the short term in favour of more uncertain financing, which would be less profitable with potentially more distant returns, not to mention running the risk of creating stranded assets. To overcome this paradox, financial actors tend to accompany spontaneous economic development (especially when new activities have reached a phase of maturity where good profitability is ensured) rather than being proactive in favour of the transition. Relying solely on the risk-return trade-off to shift the allocation of capital, it would be necessary to increase the expected return on investments favourable to the transition and/or to reduce the perceived risk of these investments, which could in theory result from economic policy decisions.[19]
- Numerous academic analyses and market experience show that the decisions of financial actors are marked by a very strong bias towards short-termism (even among actors who should have a longer-term vision). This short-termism of financial actors is in contradiction with the medium and long-term horizon that characterizes the transition.[20]

These characteristics lead the market to finance the economy as it exists rather than the economy of the future. It favours an analysis centred on past performance with the aim of replicating it in the short term, especially given that there are lower costs involved in financing transactions that are already known and understood. However, financing the transition is intrinsically different from financing other activities: it has a fundamental uncertainty and a long-term horizon. It is therefore difficult for market mechanisms alone to internalize the externalities associated with climate change. In other words, the market alone cannot solve these major failures and public intervention is essential.

For financial market actors, the abovementioned paradoxes are embodied in a narrow acceptance of their fiduciary responsibility to maximize short-term risk-adjusted financial returns. While other financial actors (such as banks or insurers) are by nature not subject to this fiduciary responsibility, they are confronted with the shareholder requirement of value creation, which also requires the short-term maximizing of financial returns (particularly in terms of dividends). All financial actors are prisoners of investor expectations for high rates of return, which leads them to attempts to reconcile sustainable investment and returns.

Overall, private voluntary initiatives are clearly useful and should be supported; they allow economic transformation to be accompanied and to contribute to the awareness of non-financial companies that lag behind in terms of commitment policies. However, due to their intrinsic limitations, they will be unable to contribute significantly to the financing of the transition (too little, too late). The question therefore arises: who can accelerate the shift in private finance?

18 "Net zero commitments need to prioritize impact" S. Bendahou I4CE, October 2022.

19 See "L'illusion de la finance verte" d'A. Grandjean and J. Lefournier – May 2021.

20 ''Breaking the tragedy of the horizon'' speech by Mark Carney, September 2015.

3. A FIRM COMMITMENT FROM PUBLIC AUTHORITIES IS ESSENTIAL TO MOBILIZE PRIVATE FINANCE

A firm commitment from public authorities is needed to overcome the structural obstacles encountered by the voluntary measures of private financial actors. What are the objectives of such a commitment? What instruments must be used?

3.1. The objectives of public commitment

Similarly to other economic agents (non-financial companies and households in particular), private finance actors need clear signals and strong incentives to move towards transition.

Public authorities must implement a comprehensive policy with the following objectives:

- Establish a clear and precise strategy for a carbon neutral transition,
- Select a central transformation pathway for the economy that serves as a reference for all public and private actors across different economic sectors,
- Establish new constraints for private actors to ensure adherence (new "rules of the game") to lead them to engage in the transition as actively as possible,
- Facilitate public and private financing of the transition.

3.2. Policies and instruments to be mobilized

This firm commitment must involve public authorities in the broadest sense (government, public financing bodies, regulators, central banks and financial supervisors). It must be based on a closely coordinated[21] use of all available instruments, aim for maximum efficiency and respond to the climate emergency.

These instruments include:

- Determining a central transition pathway and sectoral variations, which in France is now referred to as "ecological planning";
- Establishing binding rules for economic actors (*e.g.* environmental standards);
- Implementing incentive tools (budgetary and fiscal);
- Providing "patient" public financing, either directly or through public financial institutions;
- Integrating climate objectives into the implementation of monetary policy;
- Implementing a regulatory framework to guide private financial actors towards action in favour of the transition (without attempting to set up an authoritarian allocation of financial flows which would result in "administering" the financing of the economy).

3.4. Financing the transition

To finance the transition, there is a need to move away from a market-fixing approach, primarily by improving the information available, towards a market-shaping approach.[22] The former is based primarily on the notion that better information will enable the market to play its role. The latter is based on the view that the market alone will be unable to overcome the obstacles to transition.

This new approach to structuring the market must be based on long-term public funding and coordinated public policy. It must be based on a long-term public investment strategy that accepts more risk and lower returns than the private sector ("patient finance") and coordinated public action to mobilize transition finance from private actors. The objective of this "financial policy" is not to establish an "administered" economy. But rather to create a strategic framework to ensure that the private financial sector supports and contributes to the strategic priorities of public authorities in terms of the transition (transformation of infrastructure, industrial decarbonization, energy renovation of buildings, etc.) and not only that it "accompanies" non-financial companies in the transition. This policy coordination is critical to finance the transformation of the economy and innovation, to avoid carbon lock-in (which goes against strategic orientations), to shut down certain activities, and to organize the orderly management of stranded assets.

As mentioned above, public policies must be coordinated and "linked" with each other. This is particularly true of financial regulation: it cannot do everything on its own but it is part of the "toolbox" available to public authorities. It should not compensate for the absence of other policies (which would condemn it to failure) but should be used to complement other economic policies that target the financial sector, with the objective of improving their overall effectiveness. It must therefore be coordinated and consistent with other public actions. It must mobilize all available levers to drive the financial sector towards the structural transformation of its financing, so as to i) limit the systemic risk resulting from climate change and ii) play its full role in financing the transition.

21 See for example "The Green Swan – Central banking and financial stability in the age of climate change" Bolton et al. BIS January 2021.

22 ''Green New Deal" K. Edwards and J. Ryan-Collins - 2021.

CONCLUSION

We should not be deceived by an illusion. Despite the claims, the large sums of assets involved, and the undoubted goodwill of many actors, voluntary initiatives of private actors face powerful intrinsic challenges. While beneficial and worthy of encouragement, we cannot expect these initiatives to deliver more than they are realistically capable of achieving. Indeed, it appears that they are incapable of making a more decisive contribution to the financing of the transition.

This observation leads us to call for a strong commitment from the public authorities. As for other economic agents, this commitment will be decisive in mobilizing private finance for an orderly transition. A public debate must be launched regarding the instruments needed to compensate for market failures and to encourage private financial actors to play their various roles to the full. This debate should focus on the commitment of public authorities in general and on the role of financial regulation in particular, which cannot do everything on its own – quite the contrary – but must be given an important place among the instruments used.

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The financial system needs to put climate considerations at the heart of its operations, in order to participate in the transition to a low carbon and climate-resilient economy while managing the climate risks to which it is exposed. In order to achieve this objective, **the Finance ClimAct project** will develop the tools, methods and new knowledge necessary for savers to integrate environmental objectives into their investment choices, and for financial institutions and their supervisors to integrate climate issues into their decision-making processes and to align financial flows with energy climate objectives.

Réalisation : SophieBerlioz.fr

INSTITUTE FOR CLIMATE ECONOMICS
30 rue de Fleurus - 75006 Paris

www.i4ce.org
Contact : contact@i4ce.org

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