Sustainable Finance and the Future of Europe: Mobilising capital for a sustainable economy

French Permanent Delegation to the EU
20 June 2018

Breakfast Event

This event received financial support from:

Programme

Keynote: Fabrice Dubreuil, French Deputy Permanent Representative to the EU

Contexte

Presentation: Mobilising “sustainable finance” to meet the needs of a low-carbon, resilient EU economy
Ian Cochran – Senior Advisor – Governance, Investment & Climate, I4CE

Roundtable Discussion: How can the European Union be a motor for scaling up sustainable investment?
Sandrine Dixon-Declève, E3G

Short wrap up and discussion of next steps
Welcome keynote

M. Fabrice Dubreuil
French Deputy Permanent Representative to the EU

Sustainable Finance and the Clean Energy Transition

• EU Sustainable Finance Agenda
  – High Level Expert Group on Sustainable Finance
  – Action Plan on Financing Sustainable Growth
  – Implementation: Legislative Proposals on Sustainable Finance
  – Expert Group on Sustainable Finance

• EU Climate and Energy Policy
  – 2030 Climate and Energy framework - present
  – EU Long-Term Climate Strategy - Q1 2019
  – National Energy and Climate plans - 2019

• EU overarching framework
  – Multiannual Financial Framework, the EU’s future long-term budget
Mobilising sufficient capital to meet the needs of a sustainable EU economy

Investment needs, financial products and ensuring that ‘sustainable finance’ support the low-carbon, resilient transformation of the EU economy.

20 June 2018

Ian Cochran
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Key Messages

- **Commission’s Action Plan** and legislative proposal must be seen in light of: « greening » the financial sector, without generating a new pipeline of investments, will not necessarily contribute to achieving climate objectives.

- **Financial instruments**, such as green bonds, have important « informational » roles to play, however an ESG checklist approach to labeling is not appropriate to ensure ‘climate-coherence’ (not to mention ‘Paris’).

- A **holistic approach is needed to thinking about investment** – and how it is financed – to understand how the financial system can support the low-carbon resilient real economy. I4CE has piloted an approach in France to assist in doing this.
A matter of scale
Sources: IMF, IEA, UNCTAD, BIS

Annual issuance of bonds ($70tn)

Annual investment in low-carbon technologies
World ($0.3tn)

Subsidies for fossil fuels
World ($0.5tn)

Fossil-fuel import bills
US+EU+CN+JP+IN ($1.5tn)

FDI received
World ($1.4tn)
EU ($0.3tn)
China ($0.25tn)

Gross fixed capital formation
World ($16.2tn)

Annual Needs in the 2DS scenario
World ($2tn)

GDP
EU or USA (app. $16tn)
China ($8.2tn)
Germany ($3.6tn)

Sources: IMF, IEA, UNCTAD, BIS

No silver bullet: green bonds

~ $70 Tn

~ $900 Bn = 1.3%

$221 Bn = 0.3%

Labelled green bonds = bonds labelled as green by the issuer

NB: Climate-aligned bonds = bonds matching CBI definition for a green bond, either labelled or not as green by the issuer
A green bond is not a magical instrument to increase financial flows directed towards LCCR investments...

In the current regulatory and institutional context, little potential to contribute to increasing financial flows directed towards LCCR investments beyond what would have occurred without labelling.

Labelling a bond as green:

- **Does not modify the risk profile** of the bond / issuer for investors

- **Carries a additional cost**, and will continue to do so in the future

- Labelling a financial bond does not ‘make space’ specifically for additional LCCR loans, given how financial green bonds are structured for the moment

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**Overcoming obstacles to bond issuance specific to LCCR assets**

<table>
<thead>
<tr>
<th>Type of Bonds</th>
<th>Principal Obstacles</th>
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<tr>
<td>Corporate or SSA bonds</td>
<td>- The lack of pipeline of LCCR investments</td>
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<td></td>
<td>- To some extent, the risk perception of corporate bonds issued by pure-player project developers</td>
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<tr>
<td>Project Bonds</td>
<td>- <strong>The lack of pipeline of LCCR investments</strong></td>
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<td></td>
<td>- The risk perception of LCCR investments relative to other investments, and as a consequence, the cost of financing LCCR assets. The generally long-term profitability horizon of LCCR assets.</td>
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<tr>
<td>Financial Bonds</td>
<td>- The lack of pipeline of LCCR loans</td>
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<td>- The lack of tagging of ‘green’ loans in banks’ balance sheets</td>
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<td>ABS</td>
<td>- <strong>The lack of pipeline of LCCR investments and LCCR loans</strong></td>
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<td>- The lack of standardization of LCCR loans</td>
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<td>- The lack of historic data on LCCR investments</td>
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... but it does help track financing for LCCR investments

- It brings non-financial benefits:
  - it eases the process of tracking ‘green’ investment opportunities for investors
  - it contributes to accelerating the elaboration of a climate strategy in the issuing entity,
  - it contributes to ‘anchoring’ this strategy in the organization and its processes

- But beware:
  - As we expand to ‘label’ an increasing part of the bond market as ‘green’, we run a major risk of green washing.
  - Particularly true as we move from ‘project’ focused issuance to corporate or general bonds.

Challenges to an harmonization and applying ‘green’ definitions

- Divergent expectations from green bond purchasers
- Different national circumstances
- Uncertainties in decarbonization trajectories
- Need to avoid « lock-in » effects
- Difficulty of setting a definition in a dynamic world
- Assessment of ‘greenness’ of the issuer or underlying ‘real’ assets?

Issues to be taken into account in the current discussion on setting a European green bond label
Traditional ESG checklist approaches are often unable to account for « context matters » and change over time
B Better understanding of the investment and the financial value chain

The use of financing instruments depends mainly on the size of the project and the type of developer
DISCUSSION
Forward looking: additional 20-40bn€/yr to achieve French SNBC

Comparison of investments tracked in the landscape of climate finance and estimated Investment needs according to the SNBC and the PPE

- Documented investment in the Landscape of Climate Finance
- Investments deemed necessary according to SNBC and PPE
- Gap between tracked investments and needs

Data climate investment & finance remains partial

Source: EEA 2017
Key Messages

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- **Financial instruments**, such as green bonds, have an important « informational » role to play, however as ESG checklist approach to labeling is not appropriate to ensure ‘climate-coherence’ (not to mention ‘Paris’).

- A **holistic approach is needed to thinking about investment** – and how it is financed – to understand how the financial system supports (or doesn’t) the low-carbon resilient real economy. I4CE has piloted an approach in France to assist in doing this.

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Over to you!

Ian Cochran – Senior Adviser  
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@I4CE_
• Tracking and reporting of the EU’s sustainable investment needs
  – How can improved tracking and reporting of the EU’s sustainable investment needs help to mobilise sufficient capital to meet the needs of a sustainable EU economy?
  – How to ensure the connection between the ‘greening’ of the financial sector and the real economy?
  – How can we ensure the Platform on Sustainable Finance (related EU Observatory proposed by HLEG) mobilises capital towards a sustainable economy?

• EU Taxonomy & Expert Group
  – How can an EU taxonomy re-orient capital flows towards a more sustainable economy and ensure future investments are aligned with the objective of full decarbonisation by mid-century, as set out in the Paris Agreement?
  – How should ‘environmentally sustainable economic activities’ in the EU taxonomy be defined to ensure it leads to the investments needed?
  – How to ensure that the need for more than an ‘ESG check-list’ is taken into account?

• The role of public finance to deliver a sustainable economy
  – What is the role of public finance in mobilising sufficient capital to meet the needs of a sustainable EU economy?
  – How can we ensure the next MFF/EU Budget delivers sustainable investments and meets the goal of 25% investments towards climate action?
  – How should the ‘sustainability proofing’ be defined in the specific funds (including InvestEU Fund) and how should this link with the EU Taxonomy?