

European Commission report says policy actions in the financial sector can significantly contribute to shifting private capital towards climate-friendly investments

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Brussels, Belgium – On 15 April 2015 the European Commission (EC) has published the report on ‘Shifting Private Finance towards Climate Friendly Investments - Policy options for mobilising institutional investors’ capital for climate-friendly investment’. Both the authors (Triple E Consulting, Climate Bonds Initiative, 2° Investing Initiative, Frankfurt School UNEP Collaborating Centre for Climate & Sustainable Energy Finance, CDC Climat, Climatekos, CDP, Climate Policy Initiative, Get2C) and the EC recognise the significant role of institutional investors to contribute to financing the transition to a low-carbon economy. The report provides the EC with an actionable toolbox to steer private finance towards climate-friendly investments, defined as those aligned with the EU’s transition to a low-carbon and climate resilient economy that limits global warming to 2°C.

The estimated share of climate-friendly assets in the portfolios of EU institutional investors is between 1-2%. A lack of common definitions for climate-friendly assets and data makes it difficult to estimate and track climate-friendly assets. Clearly however, the order of magnitude is too low compared to investment needs. In the EU alone, the annual climate investment needs to 2020 are an estimated EUR200bn, significantly more than present levels. Untapped potential from institutional investors can contribute to closing this gap.

Policies to directly increase return on investment, such as feed-in-tariffs and a carbon price, are the main driver of climate friendly investment, but policy actions in the financial sector can be complementary. Two categories of barriers to investment were identified: (1) Barriers that are external to institutional investors’ decision-making framework, e.g. availability and volume of climate-related investment options, less favorable risk/return profile, high transaction costs; (2) Barriers arising from institutional investors’ decision-making framework, e.g. mismatching time horizon of decision-making, lack of integration of climate in fiduciary duty and engagement practices, lack of relevant climate-related risk and performance methodologies.

There is a role for policymakers to speed up market enablers. The report’s recommendations for the shorter term include actions for the European Commission to improve the risk-return profile of climate friendly assets through credit enhancement initiatives and supporting green securitisation, actions for increasing the volume and acceptance of climate-friendly financial products like green bonds, action to explore the potential of introducing a policy risk insurance and actions for standardising accounting and disclosure on climate related issues for companies and financial institutions. Recommendations for the medium to longer term target investors’ decision-making framework, for example: actions to lengthen the time horizons of institutional investors, actions exploring the use of tax incentives for climate-friendly financial products, and including climate performance metrics and carbon risk assessment in the IORP II Directive.

Climate Bonds Initiative CEO and co-author of the report Sean Kidney said the new policy recommendations tie in with the EU’s mainstream financial policy agenda including the EU Capital Markets Union and Juncker’s Investment Plan for Europe. “This gives EU policymakers more than enough options to give a boost to sorely needed green infrastructure in the EU,” Mr Kidney said.

2° Investing Initiative Global Director and co-author of the report Stan Dupré said: “Financial regulation and policies represent a key window of opportunity to remove barriers for climate-friendly investment by financial institutions. This report demonstrates the avenues to take advantage of this window of opportunity.”

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The Full Report can be accessed here:

http://ec.europa.eu/clima/policies/finance/docs/climate-friendly_investments_en.pdf

Reactions to the report:

- <https://www.environmental-finance.com/content/news/ec-calls-for-green-bond-securitisations-and-better-non-financial-reporting.html>
- <http://www.thefifthestate.com.au/business/finance/european-commission-report-pushes-for-shift-towards-climate-friendly-investment/73159>
- <http://www.recyclingwasteworld.co.uk/news/european-commission-launches-report-on-mobilising-private-finance-for-climate-friendly-investments/75887/>
- <https://www.energylivenews.com/2015/04/16/eu-plans-for-privately-funded-green-investments/>
- <http://www.ipe.com/news/esg/commission-urged-to-include-climate-risk-assessment-in-iorp-ii/10007542.article>
- <http://onepolicyplace.com/2015/04/15/report-shifting-private-finance-towards-climate-friendly-investments/>

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