The Necessity of Stable Investment Conditions to Implement the Paris Agreement and the Sustainable Development Goals

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Dear Dr Rusnak, Ladies and Gentlemen,

Let me thank Dr Rusnak for inviting me today. I'm delighted to share my perspectives on Financing Paris Agreement and sustainable development goals SDG, which is a topic of great relevance in the current global context.

The main problem seems to be that the global economy can not meet SDG as it is still in the low-growth trap with growth of around 3%. Weak investment and trade continue to weigh on the economic engine. Faith in open markets is weakening. Many citizens are losing faith in the capacity of global integration and free trade to provide opportunities for them or to help alleviate poverty and inequality, and tackle climate change. We need to build a globalisation that works for all, that works for the planet, that leaves no-one behind. International community should align the climate and inclusive growth agendas as these are two interconnected challenges.

Investment is vital for the low-carbon transformation

Investment in green growth can contribute to solve the problem. While investing to make infrastructure low-carbon and resilient adds little towards initial investment costs, but missing this opportunity, would lock economies onto a "high-carbon trap". Now is the time for smart investments that yield positive synergies combatting climate change while helping to drive growth and tackling inequality.

Although there is no single estimate of the global financing needs for green and sustainable growth, various leading international institutions, like the International Energy Agency (IEA), the Organisation for Economic Co-operation and Development (OECD), and the World Economic Forum (WEF), delivered initial estimates and demonstrated the need to deploy tens of thousands of billions of dollars in the coming decades to finance green projects, particularly in the fields of construction, energy, infrastructure, water, and waste. For the IEA, a total of no less than 45 trillion dollars in investments would be necessary to achieve the Paris Agreement's goal of limiting global warming to two degree. The UNCTAD (United Nation Conference on Trade and Development) estimates the investments required to implement the SDGs between 5 and 7 triillion dollars per year.
China estimates its green *project* financing requirements at approximately 500 billion euros per year and indicates that less than 15% of this total will come from public or government sources, with the rest coming from private capital.

Multilateral cooperation is essential

International and regional cooperations are required to support *effective* policies, institutions, and instruments for green finance and investment and to catalyse the transition to a green, low-emissions, climate-resilient global economy. All countries should share their valuable experiences and progressive approaches, both in the public and private sectors.

As an example the C40 – the largest network of global megacities taking action on climate change is a good case because by 2050 more than 70% of the global population is expected to live in cities, which brings serious implications for climate change and the environment issues such as air quality, water availability and quality, land-use and waste management.

THE GROWING COMMITMENT OF THE FINANCIAL SECTOR

The market as a *whole* has begun to respond to these new needs, in a context after the financial and economic crisis of 2008 marked by general uncertainty about guidelines for the global financial system. Various *initiatives have been carried out with or by market players, resulting in growing* mobilisation in support of green and sustainable finance:

The United Nations, in particular the United Nations Environment Programme (UNEP), has launched several approaches with market players, in particular:

UNEP Inquiry has launched an approach to define the “financial system we need” to align global financial systems with the issues of sustainable development;

UNEP FI PSI (*Principles for Sustainable Insurance*) has launched the preparation of a platform to encourage insurers around the world to publicise their climate commitments: “Insurance industry commitments to build disaster resilience and promote sustainable development”

Sustainable Stock Exchange Initiative (SSE) organised by the UNCTAD, the UNEP FI gathered together Asian and African stock exchanges from the start and now counts all of the world’s major stock exchanges among its signatories.

Portfolio Decarbonization Coalition, at the initiative of the UNEP, the UNEP FI, and the Carbon Disclosure Project (CDP), aims to mobilise institutional investors to decarbonise their portfolios and fight against climate change has been signed by more than 120 investors, managers, and asset holders, such as insurers, who alone account for more than 10 trillion dollars.

The United Nations has established the “Investor Platform for Climate Action” to identify the climate actions of more than 400 investors from 30 countries covering 25 billion dollars and provide progress reports to civil society and traders.

STRUCTURING OF NEW MODES OF FINANCING

Beyond commitments to redirect funding, other initiatives dedicated to developing green and *sustainable* finance have gradually come about within the financial system:

The role of banks

Governments should contribute to “greening” the financial markets and catalysing investment in low-carbon infrastructure. For example, they can support innovative transaction structures and risk-reduction techniques to channel investment into commercial and residential energy efficiency retrofits, rooftop solar photovoltaic systems and energy-efficient street lighting.

Governments consider green banks to “crowd in” private capital. Today most green investments are funded by banks. By supplying credit and raising capital for green investments, banks are the primary source of funding for renewable energy with debt transactions reaching 104 billion dollars in 2015. In addition, banks are increasingly incorporating environmental opportunities and risks into their decision-making processes and environmental factors are gradually integrated into traditional bank financing products.

Equity Investments

Equity and private equity players have also begun to address green finance issues. Insurers are also a major potential player in green and sustainable finance. A number of them have made individual or collective commitments aimed at decarbonising their portfolios, disclosing their carbon footprint, and joining to dedicated platforms.

Green bonds

Since 2007-¬2008 new opportunities have appeared with green finance, in particular the gradual emergence of the market for green bonds. These bonds are debt instruments earmarked exclusively for finance projects generating environmental benefits. Green bonds are now gradually being issued by corporations, accompanied by the private financial sector for the origination, underwriting, and investment of these products. Although it still represents only a very small share of the global bonds market, the green bonds market is growing with a 31% increase in issuances in 2015, with growing issues by corporations and commercial banks.

Its development has been accompanied by the definition *of* standards intended to ensure the credibility and transparency of processes associated with issuing green bonds.

The Green Bonds Principles (GBP) initially published in January 2014 provide issuers with guidelines on the elements required to issue a green bond, help investors obtain information to assess the environmental impact of their investments, and facilitate the structuring of transactions by arranging banks through the promotion of market standards. The GBPs are currently supported by 123 members active on the green bonds market throughout the world (59 banks, 35 investors, and 29 issuers) as well as 77 organisations called “observers”.

The bond market currently provides about one third of total financing for corporates globally, but has yet to play a significant role in green financing. Green bonds issued globally in 2015 represented less than 1% of total US bond issuance alone! There are many things that governments can do to improve channels for green investment, by creating the right stable and predictable policy environment to help mobilise private capital. They can also deploy risk mitigating techniques for green bonds.

RISKS AND CHALLENGES OF GREEN FINANCE

The positioning of financial players on the emerging market of green and sustainable finance means taking into account a number of challenges: some related to the immaturity of the market and others related to its intrinsic specificities. While the financial sector has been characterised since the 1970s by growing harmonisation of procedures and accounting standards to favour the liquidity and fungibility of capital markets, the characteristics of green and sustainable finance do not fit into this dynamic. The integration of environmental and social factors into these market frameworks is a new, little-explored area for both players and regulators.

We can group the challenges of green finance into five categories:

Externalities

Guiding investment decisions towards green and sustainable projects requires the internalisation of externalities such as pollution, danger to the health of users, etc. by assigning a suitable price for these externalities. The lack of an appropriate price of externalities, for carbon for example, leads to situations of under-investment in green or sustainable assets (more expensive) in favour of assets with low environmental and social added value.

Lack of clarity in green finance

An obstacle to directing investments is the lack of clarity about what constitutes a green or sustainable asset. This makes it difficult for investors, banks, and companies to guide their decisions as well as their accounting and performance measurement tools.

Information gaps and asymmetry

The lack of communication of environmental and social information appropriate for investing in projects increases information costs and reduces the attractiveness of green investments.

Moreover, disseminating information as such is not necessarily sufficient, and the lack of a signal for investors to validate the consistency and reliability of green assets constitutes a barrier to investment. The lack of sharing of available information between players (for example, between the environmental regulator and financial institutions) is also a factor contributing to asymmetry.

Inadequate analytical capabilities

The understanding of the financial implications associated with environmental risks is still at an early stage in its development. The ability of banks and financial institutions to identify and quantify the resulting credit risks or market risks still needs to be developed. This is especially true given that the financial models have become widespread as management and decision-making instruments and that, at this stage, the integration of environmental and social factors, often difficult to quantify, is complex.

Maturity mismatch

One of the characteristics of green finance is the difficulty in mobilising long-term financing, which is a problem shared with infrastructure. As a result, there is a risk of chronic under-investment in green projects, the maturities of which are often long.

Between long-term projects and the expectations of investors and savers in search of short-term and medium-term liquidity, the issue of maturity mismatches is essential. Long-term project financing for green infrastructure, which relies especially on bank loans, is particularly constrained by the relative short maturity of their liabilities. Simultaneously, long-term investors are waiting for long-term investments that make economic sense, the amount of which estimated by the new climate economy is approximately 6 trillion dollars per year globally in the next 15 years.

The integration of environmental constraints and the development of green finance pose a number of challenges that need to be addressed by both the public sector and the private sector. There are a number of needs and opportunities to be seized for the financial sector to develop responses:

- in the understanding of necessary investments (appropriate sectors and activities, geographic regions, characteristics, etc.);
- in the development of new tools and new financial products targeting an environmental or social goal;
- in the development of standards and methodologies ensuring the integrity, traceability, and measurement of impact of funding.

Ladies and Gentlemen,

Our people and our planet demand a stronger effort. The national plans put forward under the Paris Agreement are still collectively insufficient to limit global warming to well below 2°C above pre-industrial levels. So we must do more and we must do it now! And we must do it inclusively.

Thank you.