EUROFI VIEWS MAGAZINE - ZAGREB APRIL 2020

Mario Nava

Director Horizontal Policies, DG for Financial Stability, Financial Services and Capital Markets Union, European Commission

Commission's rising ambition on sustainable finance

The current pandemic crisis of COVID shows that risks that were ignored may materialise and provoke huge damages to the socio-economic fabric of the world. The Action Plan on sustainable finance aims at preparing an orderly response to the sustainability risks that have kept accumulating in the last decades.

The start of the adventure on sustainable finance can be traced back to 2017 when the Commission set up a High Level Expert group and asked the members and experts of that group to make strategic recommendations for a financial system that supports sustainable investments. Those recommendations informed the European Commission's initial 2018 Action Plan on financing sustainable growth, which laid down the foundations for channeling private capital towards sustainable investments. Among the 10 priority actions it's worth recalling the Commission's proposal of a "green" taxonomy (i.e. classification system of environmentally friendly economy activities) for which a political agreement was found in December 2019 establishing the overall framework and principles. This piece of law, also through the adoption of subsequent delegated acts, provides clarity to and a common language for the financial market hence on one side fighting green-washing and on the other side facilitating sustainable investments.

Now fast-forwarding to 2020, the political context has changed compared to when the Commission put forward the initial Plan. The EU Green Deal is the political priority of this new Commission and the vision is clear: we need to act now and decisively to transition the EU economy to carbon net zero by 2050. To this end, the Green Deal proposes the design of deeply transformative Europe-wide policies that will aim to revolutionise the continent's clean energy supply, industry, production and consumption, large-scale infrastructure, transport, food and agriculture, construction, taxation and social benefits. This increased ambition of the goals and targets under the EU Green Deal requires a much more fundamental transformation of how the financial and corporate sectors operate.

The financial sector is making progress, but its efforts should be assessed against this new policy framework and the pressing necessity to avoid climate and biodiversity crisis tipping points. It is now time to intensify efforts to reach the higher level of ambition set out in the European Green Deal. After an Action Plan that started to address the most urgent issues, the current context requires a more comprehensive and fundamentally more progressive strategy.

The renewed strategy on financing sustainable and inclusive growth is foreseen over Fall 2020 and is expected to predominantly focus on three areas:

1. Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures. Too many financial and non-financial companies still disproportionately focus on short-term financial performance compared to their long-term development and sustainability-related challenges and opportunities.
2. Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and companies. This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to "finance green".
3. Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole in order to move from brown to green, while ensuring social risks are duly taken into account when relevant.

As it's the case for all major initiatives, the Commission will consult over spring 2020 on some preliminary ideas and strongly invites citizens, the business world, the national administrations, NGOs and society at large to engage in this process. Only through a collective effort and broad feedback and support can the Commission put forward an ambitious strategy that will provide the right framework for-and recognize the important role of-the financial sector in accelerating the sustainability transition and mitigating potential sustainability related risks.

This will be all the more true in the months and years to come given that adherence to sustainability criteria like the Sustainable Development Goals will be key to channel the right type of support to economies around the globe currently struggling due to the pandemic COVID-19 crisis. ●