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Sustainable Finance – a broader approach seems necessary

Considering the major challenge to combat climate change it is comprehensible and very positive that numerous initiatives regarding Sustainable Finance are taken, at global as well as at European level. As a matter of fact, this is also exactly why it is essential to coordinate all those initiatives in the best possible way to further strengthen cooperation and to avoid any overlap or duplication tying considerable resources.

While Europe is about to take a leading role in the international community when it comes to setting and achieving climate change goals, proportionality with respect to the European share of the global greenhouse gas emissions should not be forgotten. I certainly share the view that the European Union should show leadership in the global fight against climate change, but this must not lead to pioneering activities inviting others to lean back without any ambition. In this respect the coordination of joint efforts of the International Platform on Sustainable Finance, the Coalition of Finance Ministers for Climate Action or the Network for Greening the Financial System to name the most important ones, should be the prior interest of the European Union and European institutions. However, to give those initiatives the necessary purview it remains to be wished that these important international cooperation activities are joined by more and more countries in the near future. What is also deemed decisive for the success of the joint objectives is that measures are not over-bureaucratic and too cumbersome and allow for the necessary flexibility and proportionality supporting the market to adapt.

Another example for European leadership is the recently adopted business model of the European Investment Bank, pushing the climate and sustainability agenda within the International Finance Institution peers. International Financial Institutions, such as the World Bank Group, together with regional Financial Institutions in Africa, Asia and Latin America are key when it comes to leveraging climate financing on a global scale. They ensure that "green washing" is held at bay and common quality standards are adhered to. These institutions committed over 43 billion USD in climate finance alone in 2018 for developing and emerging economies.

A further key task when it comes to Sustainable Finance is the proper integration of climate and sustainability risks posed by climate change in the overall risk management of financial institutions. Concerns still exist that this relatively new task, at least to this extend, could be misinterpreted by financial market participants prioritising climate and sustainability risks and underestimating or neglecting general banking or financial risks still continuing to exist at an unchanged level. It is fundamental to address and mitigate the entire risk of a financial instrument, otherwise unanticipated losses would impose negative economic impacts and threaten financial stability.

With a view to the market, the recent past has shown that the interest in sustainable finance in general is high and the demand for green or sustainable financial products is strongly increasing. Against this background, the availability of sufficient sustainable projects and investment possibilities is fundamental for the proper and swift functioning of the market. Therefore, policy priorities should not only focus on avoiding "green washing", but also on fostering private sustainable projects and initiatives. In this context it is also an undisputed fact that a swift and smooth transition to mainstreaming sustainable finance is required. However, to avoid incalculable risks and consequences as well as stranded costs it seems to be important to not immediately and abruptly drive certain branches out of the market, but rather to support their timely transition. ●