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Sustainable finance is the answer for Covid-19 recovery

260 billion euros are needed annually in the EU by the end of this decade in order to reach climate and energy targets. A common misconception is that this will require drastic additional investments. On the contrary, tools, resources and money already exists. Total assets under management in Europe in 2019 were estimated at 23 trillion euros. The global assets under management are around 90 trillion dollars.

Corona recovery measures in the EU and Member States reached 3 trillion euros within just a few months, even before the planned Recovery Package and Commission's proposal for Recovery Instrument, Next Generation EU. In this perspective, the annual 260 billion seems rather achievable. Moreover, sustainable transition makes financial and economic sense.

The Global Commission on the Economy and Climate estimated that climate action stands a chance to deliver over 26 trillion dollars in economic benefits. The return on investment in carbon neutral and circular technologies and infrastructure is estimated to be multifold, over 7 trillion dollars by 2030.

It is becoming clear that sustainability risks have a financial impact on assets. By 2100, expected financial losses could amount to over 4 trillion dollars in present value terms, according to a study conducted by Economist Intelligence Unit in 2015. A 6°C scenario could put 13.8 trillion dollars at risk, threatening 15 percent of global assets under management, and therefore posing a risk to the financial system as a whole. Recent studies hint that the systemic risk might put in risk a third of the financial markets.

In order to integrate sustainability risks and impact within investment decisions, or for authorities to decide on large-scale projects or public procurement tenders, there is a need for a robust toolbox to assess risks and to measure impact. All public money spent should follow the EU taxonomy classification in order to create effective coherence between public and private resources. Zero-euro should be used supporting fossil economy and environmentally harmful activities. This means the full respect of Do Know Significant Harm principle and gearing at least 50 % of investments to climate and environment transition.

The newly adopted EU Taxonomy is a revolutionary step towards correcting the way financial sector and the real economy can price in environmental externalities. The sign-off of the landmark regulation in June puts the EU in the forefront of global sustainable finance agenda, both in public and private sectors. Greening the financial sector is becoming an urgency in order to make investment decisions that affect generations to come.

We need comparable sustainability data based on robust standards built on harmonized sustainability indicators that measure key aspects of sustainability of an economic activity, using a common methodology. Relevance of each indicator varies from one industry and sector to another, the core environmental calculation system should consist of measuring key aspects of production, consumption and resource efficiency: use of resources, water consumption, direct and indirect land use, emissions including CO_2 emissions, production and treatment of waste, and the impact of an activity on biodiversity.

The next step in Sustainable Finance strategy should be the development of integrated reporting and accounting standards that equip different stakeholders, from corporates planning investments in the real economy to financial intermediaries making investment decisions or managing assets on behalf of asset owners, to end investors, public authorities and the civil society, with tools to make informed decisions regarding where money is spent.

It is our duty to ensure that these recovery trillions are spent sustainably in the long term. No euro should be spent on unsustainable economic activity or businesses. Otherwise we will be leaving to future generations both public and climate debt. For this we need the tools for assessing the environmental impact of an investment and public spending more than was thinkable when the EU taxonomy was proposed. EU Recovery Plan and the next Sustainable Finance Strategy are the opportunity to speed up the necessary transition into a sustainable economy. Covid-19 and the recovery financing can be a virtue in the vice. Circular economy and sustainable finance – a match made in heaven.