FOSTERING INVESTMENT IN THE GREEN TRANSITION

MINDAUGAS LIUTVINSKAS

Vice Minister of Finance of the Republic of Lithuania

Geopolitical challenges further underline the need for green transition

There is no doubt that the mobilisation of necessary financial resources to enable green transition is one of the most urgent issues at the policymakers' table. While countering climate change is a critical strategic goal in itself, the urgency for pan-EU green transition efforts has increased dramatically after russia's invasion of Ukraine, which has exposed EU reliance on imports of fossil fuels from russia, followed by energy prices shock of an unprecedented scale.

Acceleration of the green transition will depend on multiple factors, including the development of net zero technologies, increasing renewable energy production capacities as well as enhancing energy efficiency. While different objectives require different measures there is one common denominator underpinning everything – the availability of the necessary financing.

EU level financial instruments, such as the MFF and NGEU, play and important role in this regard. RRF – the cornerstone of NGEU – has a clear focus on green transition measures, reflected in national RRF plans and further enhanced by the REPowerEU initiative. While RRF implementation is still to reach its peak, the instrument has vast potential to push the green transition effort forward and marks a fundamentally novel approach in striving for EU-level policy goals.

On top of EU-level funding, substantial national resources are devoted to the green transition measures like the scaling up renewable energy sources or modernization of the transport system. A key role here is also devoted to green taxation, which brings dual benefits by mobilizing additional budgetary resources and helping to change the consumption and investment patterns in favour of a more environment-friendly behaviour. Going forward, green taxes will play an increasingly important role, complementing the positive incentives provided by public funding to encourage energy efficiency and development of alternative energy resources.

We must step up our efforts in attracting private funds towards green transition goals.

Nevertheless, estimates suggest that the green transition is at risk of facing a persistent financing gap in the upcoming decade and it cannot be covered only by public funds, be it EU level or national. This means that we must step our efforts in attracting private resources and gearing them towards reaching green transition goals. This requires streamlining regulations and reducing barriers for investments in critical sectors like renewable energy. Also, we need a clear long-term framework for greening the EU economy, while also ensuring incentives – including regulatory ones – for companies to develop sustainable businesses. In this vein, well-functioning disclosure requirements are also essential, as they would allow attracting private capital into green projects and economic activities via the financial system.

In other words, financiers and investors need to be provided with tools and instruments that would enable greater clarity in assessing what asset classes, activities and projects are green. This includes assessment methodologies, certification solutions (when appropriate), standards for sustainable financial products and mechanisms for monitoring compliance. Taxonomy is and the green bond standard, once operational, will be right steps in this direction.

While EU-level decisions and green framework are of crucial importance, we also need to do our homework domestically. With this in mind, the Government of Lithuania has prepared ambitious plans covering the development of renewable energy capacities, boosting energy efficiency measures and investing in green transport solutions. We have estimated that there is a gap of at least EUR 4 bn until 2030 that needs to be covered by attracting private funds. To enable this, the Green Finance Action Plan has been developed, which sets out concrete steps to create an ecosystem enabling the mobilization of private investments, which would supplement public funding.

Key pillars of the Plan include establishing a centralized and publicly available sustainability database, creating a tailored labelling system, setting up of the Green Finance Institute, which will function as a public sector think-tank for green solutions, and constructing dedicated financial instruments via the national promotional agency. Building on our relevant experience in the FinTech field, we are in close dialogue with the private sector stakeholders and various public institutions, in order to create a vibrant and open ecosystem, which would work as a catalyst for channelling investments into the green economy.

When it comes to countering climate change and increasing resilience of the European economy, all of us – public and private actors – are in the same boat. We need to ensure that the right incentives and frameworks are in place for both sides to play their part.

LUDĚK NIEDERMAYER
MEP & Vice Chair, Committee on Economic and Monetary Affairs - European Parliament

Green transition in the EU: overcoming uncertainty and obstacles

Uncertainty is one of the main, if not the most important enemy of businesses. The EU set its climate objectives a while back, in the Climate Law, as well as drafted a detailed plan on how to reach them in the Fit for 55 Plan. This has delivered a clear environment in which the economy and firms will operate in the next decades.

As we navigate the complexities and unknowns, with technological progress continuing at a fast pace, leaving us wondering what new advancements will emerge and how they will impact our societies. At the same time, questions about the global economy remain, while unforeseeable events, such as Russia's recent aggression towards Ukraine can end even the best plans.

In the midst of all this uncertainty, the European Union has taken proactive steps to mitigate the risks and prepare for whatever lies ahead. One such measure is the creation of various funds designed to accelerate the implementation of necessary measures. These funds are targeted at assisting member states with lower GDP, providing support to those most affected by the changes, and bolstering strategic sectors of the economy.

In the ongoing debate about how to build a more sustainable economy, it is easy to overlook the fact that most of the funding for such initiatives will come from private sources. With this in mind, the predictability of policy and regulation becomes an essential factor in encouraging investment and spurring the growth of sustainable industries.

There are two approaches to encourage this shift: the first involves strict regulation to prevent certain actions, such as prohibiting the construction of highly inefficient buildings. The second approach prioritizes policies that promote behavior aligned with desired outcomes in the vast majority of cases, making it illogical to construct inefficient buildings. However, while the latter approach should take precedence, it is not always successful.

The ideal situation is that the business case for a new investment done in such a way that it is consistent with objectives would prevail over alternatives leading to less sustainable results. Given the stability and competitiveness of the EU banking sector, legislation promoting sustainable investments (like taxonomy), incentives for firms to act sustainably (like ESG), or efforts to promote the capital market, such projects based on strong business cases should be able to get financing.

EU's pursuit of sustainability requires predictable policies to encourage private sector investment.

The EU is facing several obstacles in achieving its sustainability goals. One of the major challenges is the limited development of a business-oriented approach to sustainability. Moreover, red tape, excessive bureaucracy, complex investments, and fragmented sustainability policies, with each country prioritizing its own approach, are significant risks that could impede the success of the transformation. These issues are hindering progress towards sustainability in the EU, and addressing them is critical to achieve the desired outcomes.

The lack of a "business case logic" in sustainability planning can result in the misallocation of public funds. When there is excessive support provided to investors without a sound business case, it can lead to a waste of public money. Conversely, the lack of investment occurs when public authorities fail to recognize that certain desired investments are either too risky or have a low likelihood of success.

Many problems can be addressed through market mechanisms, such as auctions for new capacities of renewable energy sources (RES). However, the effectiveness of public support measures and their interplay with other policies must also be considered. For instance, as the deployment of new RES occurs at an increasingly rapid rate, the cost of electricity production is likely to decrease in many periods. In such circumstances, an "investment subsidy" may be ineffective or require substantial funding. Instead, using a "contract for difference" or implementing a rapid increase in demand for electricity during peak hours through the production of hydrogen, energy storage, or other methods could potentially yield the desired outcome.

Initially and naturally, the emphasis was placed on defining the "correct objectives" in the first phase. Proposed milestones and policies for achieving those objectives have since been established and are now almost verified. Currently, the crucial concern is formulating strong business cases, which are essential for achieving the targets most efficiently and ensuring effective utilization of public funds.

The EU has clear climate objectives with a plan to achieve them, however, uncertainties and unforeseeable events pose some risks. The pursuit of sustainability is a complex and uncertain journey and the private sector's participation is crucial for success, making predictability of policies and regulations essential to encourage investment.

HARALD WAIGLEIN

Director General Economic Policy, Financial Markets and Customs - Federal Ministry of Finance, Austria

How green investments can bloom in times of drought

Almost everybody holding a governance function is on the same page these days on how investments should best look like: green, sustainable, targeted and conducive to greater independence. The global net social benefit of phasing out coal and transitioning to renewable energy by the end of the century has recently been estimated in an IMF working paper at 85 trillion dollars. Financing needs (investments and compensations) in that regard sum up to 29 trillion dollars. Additionally, in its world economic outlook update from January 2023, the IMF identifies "a concerted push for investment along the supply chain of green energy technologies" as a policy priority.

The current macro-economic environment is challenging: COVID revealed strategic dependencies and supply chain vulnerabilities, the Russian aggression towards Ukraine causes immense human suffering and economic distortions such as high inflation, growth expectations are muted, interest rates are climbing up, uncertainty is pronounced and budgets are stretched. The EU's response to the COVID crisis – the Recovery and Resilience Facility and its recent REPowerEU supplement – will make a significant contribution to the green transition, but its success depends on the extent to which it also mobilises private investment.

The good news is that similar things had been achieved in the past – almost every crisis and pressing challenge has led to a certain learning and recalibrations of rules and growth models. Sometimes changes took longer to materialise, were more painful or needed exogenous nudging, but in the end the cart was pulled out of the mud in most cases. In the case of the green transition, costs and benefits and/or avoided damage are stretched in time, increasing the urgency of political communication and action. Profound structural reforms are hard to implement in economic good times and even harder in bad ones, but are a precondition for a sound investment environment. If this sequence is ignored, it is like bringing a leaking bucket to the garden – once you are at the flowers most in need for watering, there is nothing left.

Public sectors can function as role models and lever private action.

Most importantly, we have to stabilize expectations. We will not get a single homeowner to install a solar panel on his roof or a CEO to switch the car fleet of her company to sustainable ways of mobility if amortisation, value added, tomorrow´s regulatory regime or capital cost is unclear. In this regard, price signals have to be preserved to anchor net present values of investments in green alternatives. Too generous public subsidies, excessive interventions and unclear rules are to be avoided. If a government chooses to put a price tag on CO_2 emissions – which is one way to support price signals – a clear and fixed adjustment path should come along. Irrespective if you follow the economic lines of R. Coase (i.e. paying off polluters) or A. Pigou (i.e. taxing polluters) on internalisation of externalities, consistency and predictability is key.

Looking at private sector funding, we have to be creative and innovative. Regulatory sandboxes to test new ideas and filter best practices can help to find solutions. Supporting start-up employee shareholdings bears the potential to better link knowhow and capital. Idle or unproductive resources can be redirected to green purposes via tax disincentives on inactivity and brown investments. A clear-cut taxonomy ensures that everybody is on the same page on how green investments are defined. Special foundations to channel private capital to climate related endeavours could be established. Furthermore, the public sector can work as a role model via green bond emissions and green procurement, R&D expenditures and other investment decisions.

However, there may be setbacks. Nobody knows exactly what the world will look like in 2030 and beyond. This especially holds true when it comes to climate change, diseases or geopolitical tensions. Technologies that seem to be promising today may not necessarily do the trick tomorrow. On the other hand, there may be solutions and technological improvements around the corner nobody is aware of at the moment. It is therefore important to avoid lock-ins, remain flexible and stay vigilant to grasp new developments.

To sum up, circumstances are not 100% enabling right now but they probably never will. Economic policies, especially structural reform progress, are required to counter steer, softly guide and shape conducive frameworks. The Recovery and Resilience Facility's reform angle should be fully exploited and further strengthened in the context of REPowerEU. As uncertainty is detrimental to investment decisions, it is key to stabilise expectations while allowing sufficient flexibility. Funding should be based on both, traditional and innovative pillars. Public sectors can function as role models and lever private action.

NIALL BOHAN
Director, Asset, Debt and Financial Risk Management, DG Budget - European Commission

Funding climate transition: EU firing on all cylinders

Funding climate transition is not a fair-weather policy. It is a core Union priority which will not be put on the back-burner when economic conditions become challenging. For reasons that will be obvious from following weather-driven headlines in recent years, it will be clear that this a luxury that we do not have.

Finance – both private and public – is critical in rewiring our economy and society on a sustainable basis. The European Union has been spearheading efforts to mobilise finance to fund climate transition for over a decade – through its own budget, policy development, regulatory proposals and more recently as one of the world's leading green bond issuers in its own right.

This commitment is reflected in the share of EU budget spent on supporting climate transition. The European Commission reports on EU budget climate spending, systematically since 2014 in its annual budget. With the launch of the 2021-27 long-term EU budget and NextGenerationEU (NGEU), the EU's ability to drive climate transition has moved into a higher gear. The overall share of climate spending in the EU budget has increased from 20% during 2014-20 to a 30% target for 2021-27.

The NGEU programme has taken EU support for climate transition to a qualitatively different level. Member States are required to spend 37% of their national Recovery and Resilience plans – the roadmaps to NGEU financing - on climate transition. Several Member States have significantly exceeded this target so that around 40% of the Recovery and Resilience funds already committed or around €190 billion are available as additional firepower to tackle the climate transition challenge.

The recently agreed REPowerEU, with its focus on energy diversification and funding renewables, is expected to enhance the climate-transition impact of these plans even further and ensure the full use of the budgetary availabilities under NGEU. Overall, between direct EU budget support and NGEU, the Commission is expecting to mobilise well over €600 billion on climate transition by 2027 – on top of national and private financing.

The EU has also been an innovator in other areas. The EU was the first jurisdiction to introduce an international Emissions Trading Scheme (in 2005). By ensuring that carbon-related externalities are reflected in fuel prices, this pioneering scheme is playing a key role in moving our economy to a more sustainable footing. The ETS market is maturing constantly and a portion of ETS revenues are set to become a new Own Resource to directly finance the EU budget.

The NGEU programme has taken EU support for climate transition to a qualitatively different level.

The EU has also led from the front in terms of regulatory action. Based on the road-map provided by the High Level Expert Group on Sustainable Finance (2017), the EU has focused on ensuring sound disclosure and transparency to enable investors to make climate-informed choices about where they place their capital. The introduction of Sustainable Finance Disclosures in 2019, the EU Taxonomy in 2020 and the agreement on the EU Green Bond Standard just this year are all important milestones on the road to a deep and liquid EU sustainable finance market.

The EU is not just talking the talk. With the launch of the NGEU green bond programme, it is also walking the walk. The NGEU Green Bond programme has the potential to be the largest single green issuance programme in the world. The Commission has verified that a pool of around €190 billion of Recovery and Resilience funds is eligible for green bond financing.

The inaugural NGEGU green bond issuance for €12 billion in October 2021 was the largest green bond issuance to date globally. By end-March 2023, the Commission has issued over €40 billion of NGEU Green Bonds.

A notable feature of the programme has been persistently strong level of investor interest – even in volatile or adverse market conditions. NGEU green bond issuances enjoy stronger demand than conventional bonds, leading to slightly tighter pricing and high oversubscription rates.

Strong investor confidence in the Commission is based on the NGEU Green Bond Framework aligned with a four-pillar model of the International Capital Markets Association (ICMA) and the Commission's AAA rating, which was just recently re-confirmed by Fitch. The Commission works hard to retain investors trust through its comprehensive and state-of-the-art reporting. The customised online Dashboard on green bonds which provides regularly updated information on eligible projects and the first use of proceeds report in 2022 have been strongly commended by investors. This will be followed at end 2023, by the first impact report to assess what projects funded by NGEU green bonds have achieved.

However challenging the immediate market outlook, the Commission will steadfastly pursue its sustainable finance agenda. These are not just empty words. The EU has taken pioneering steps on the disclosure and regulatory front. Climate transition and clean tech key investment is at the forefront of the policy agenda.

CORNELIA ANDERSSON

Groupe Leader,
Sustainable Finance and
Investment - London Stock
Exchange Group (LSEG)

The success of climate finance rests on policymakers mandating transition plans

The implementation of pledges to the Climate transition is getting harder for many European countries. The impact of war in Ukraine has thrown the spotlight on issues such as energy security and rising inflation. Yet, amidst this challenge, the question should not just be whether enough climate finance is flowing into industries; from energy, to transport or shipping to drive down emissions and scale new green sectors, but whether it is being invested most efficiently across the private sector.

For the second consecutive year, sustainable lending globally surpassed $650 billion, while green bond issuance in 2022 almost hit $400 billion, a significant rise against pre-pandemic levels. Yet, to enhance the sustainability outcomes of these investments and help grow the nascent green economy, we need far greater transparency in how companies are progressing against their publicly available climate targets.

The best way to equip investors and governments with the insight and data they need to deploy capital effectively is via policy intervention and specifically mandating the publication of climate transition plans not just in Europe, but on a global basis.

Sound and reliable information on which – and how - firms are making important progress on climate mitigation and adaptation is critical. High-quality transition plans would increase the climate effectiveness of funds by identifying the right companies and infrastructure projects that will help Europe achieve 2030 and 2050 emissions reduction targets.

Huge progress has already been made on corporate net zero targets across many developed markets. The majority of FTSE All Share companies have published some form of net zero target. Yet only 16% of them have formulated and published a transition plan – setting out how they intend to reach the target. The situation is similar in Europe: when half of European companies report having 1.5° climate transition plans, only 5% disclose a credible action plan. Across many markets, there is a lack of granular forward-looking insights into how companies are doing against their targets.

High-quality transition plans would increase the climate effectiveness of funds.

This 'accountability gap' is leaving investors in the dark on how to respond to climate risks and opportunities as they continue efforts to align portfolios to 2050 target. Regulators should intervene to close this gap as lack of data is not just impacting where capital is going, but is also a barrier to further investment. Concerns about the availability of ESG data and the use of estimated data is the number one barrier for investors considering sustainable investment opportunities according to FTSE Russell's 2022 survey of global asset owners.

The financial sector has a fundamental role to play in this transition, in tandem with public institutions. Turning to a net zero economy depends on the effective provision of financing to support environmentally sustainable projects and the growth of the green economy. A substantial and growing volume of capital is being deployed in this way.

There is, however, reason for optimism. Some governments are starting to mandate disclosure of transition plans. The proposed EU Directive on Corporate Sustainable Due Diligence includes a provision requiring in-scope companies to adopt a transition plan compatible with the 1.5 degrees objective of the Paris Agreement. The upcoming European Sustainability Reporting Standards (ESRS) developed by EFRAG will introduce specific metrics and milestones to assess the progresses made by a company's targets. This will provide for a granular and standardised reporting framework for those reporting companies.

Furthermore, industry-led guidance also now exists for corporates to publish voluntary plans. The Glasgow Financial Alliance for Net Zero (GFANZ) published supporting guidelines, focusing on practical steps, such as goal setting, aligning business and climate objectives and helping suppliers. Our CEO David Schwimmer is actively involved in the UK Government's new Transition Plan Taskforce, to develop a gold standard for what these crucial climate transition plans should look like. In short, those are opportunities for companies to get ahead of likely forthcoming regulation.

Data and insight on the progress companies in the private sector are making against their previously announced climate goals will not only ensure capital is deployed in the most efficient manner, but also remove barriers to investment that are preventing capital from reaching important projects.

It is my hope that by the next Eurofi conference in Spain next semester, we will have made meaningful progress to close the gap between targets and action plans on climate.

PIETRO CARLO PADOAN
Chairman - UniCredit S.p.A.

The power of investments to foster green transition

Green transition could represent an effective growth model for Europe which for many years has failed to reconcile growth and sustainability.

Climate change is a major threat to sustainability, but it can become a major opportunity to grow provided appropriate policies are implemented. The green transition requires a combination of micro and macro instruments and resources that involve both the private and the public sector policies at the national and the EU level. In this perspective, macro policies should include a green investment fund, on the wake of the SURE instrument, and a green golden rule for public budget management. Micro policies should include tax policies, regulatory policies, green R&D incentives, and green financial instruments which should make green investments more profitable for the private sector.

The purpose is to change the behavior of companies and households in their allocation choices. It's interesting to note that the RRFs experience shows that public sector involvement in investment projects have resulted in greater additionality and crowding-in effects. Measures such as loans and/or guarantees granted by the EIB and/or NPBIs, combined with the right policy support, have steered private financing into areas that otherwise would have been unattractive due to low returns for investors.

Statistical evidence shows that companies respond positively to investment in climate activities to the extent they have set climate targets, are energy intensive, have energy cost concerns, and have adopted digital technologies. Less prominently other factors include size, and adoption of advanced managerial practices. Obstacles to green investment are also to be considered and include uncertainty about environmental regulation, lack of skilled staff, cost of investment, uncertainty about regulation referred to new technologies, uncertainty about climate change, lack of green finance.

It is worth noting that for all specific factors, the obstructing factor is stronger in the EU with respect to the US. Not only innovation activities in EU are lagging behind US. Resources are limited and possibly misallocated. Misallocation reflects the lack of innovation friendly financial instruments such as venture capital.

Climate change can become a major opportunity to grow provided appropriate policies are implemented.

The public sector role will still have to increase, given the public-goods nature of some of the necessary investments or because of the existence of market failures in some activities that support policy objectives. Nevertheless, relying only on public money would simply make the achievement impossible. The additional investments in Europe needed for the achievement of the current 2030 targets are estimated to be equivalent to 2.3% of GDP.

Therefore, capital markets must provide appropriate private resources. More homogeneity could provide a boost to green investment, however there is great heterogeneity across EU countries both in propensity to green innovation and in the use of green policies. Some progress is being made in green financing but a slow pace.

Key elements of an effective and credible financing mechanism should have some basic characteristics. Firstly, fragmentation among national sources should be avoided to provide further common investment capacities and to stimulate local innovation and production of low carbon technologies. Secondly, structured solutions have to be shaped to foster the development of a common European goods (e.g. energy market). This is true especially in light of the recently announced "Green Deal Industrial Plan", in response to the multi-billion support programs launched by China and the US. Thirdly, it's necessary to ensure a level playing field through a careful balance between state aids relaxation and public expenditure flexibility. Finally, it' urgent to intensify efforts to create a fully developed Capital Markets Union.

The NGEU program and its operational arm, the Recovery and Resilience Facility which is translated into National Plans of Recovery and Resilience, is a good example which could pave the way for structural solutions aimed at revamping UE growth in quantitative and qualitative terms. It does so by supporting public investment and structural reforms through substantial financing.

But the increase in the potential output is a necessary, but not sufficient, condition for sustained growth as it may generate a negative output gap. A sufficient condition is the activation of demand side policies that can fill the long-term negative output gap. If there are no ways to fill the output gap, then the increase in potential output remains unexploited. This would perpetuate the secular stagnation pressure, possibly pushing back potential output and therefore the growth acceleration would not be sustained.

This relation clearly shows the need to activate NGEU also on the demand side through, over the long term, a new policy mix which includes a sustainable centralized fiscal capacity and a full-fledged growth policy along the lines of NGEU.

DEBORA REVOLTELLA

Chief Economist -
European Investment Bank (EIB)

Europe needs a coherent European effort for transformative investment

Delivering on the net zero transition requires substantial investment, for a rapid turnaround of the European economy. Estimates suggest that investment should increase by more than EUR 350 bn per year in this decade, to meet the EU net zero targets. Investment for adaptation and for a more resilient energy market add to those figures, as well as strategies to support green innovation and green technologies along the whole of the value chain.

Public investment has a crucial role to play. As the European economy has recovered from the pandemic and absorbs the hit of the energy shock, public investment remained resilient. It is however proven that public investment is extremely sensitive to possible future consolidations. Even in the benign scenario of continued relief from the recovery and resilient facility funds, we underline the importance of implementation capacity.

More than 50% of EU municipalities lack skills for climate investment, engineering, digital and legal issues. This is a substantial gap, which constrains the planning, preparation and implementation of public investment programs.

While public investment is important, most of the investment will nevertheless have to come from the private sector. The energy crisis and higher energy costs pushed firms' energy efficiency, overcoming the effect of uncertainty.

With climate action, instead, very clear incentive systems are needed to preserve the investment appetite, with no doubts on the policy priority for decarbonisation. Simplicity and predictability of intervention are key to reduce uncertainty.

There is no need to reinvent the wheal – de-risking mechanism exists but is also clear that finance needs to be accompanied by other market creating and enabling measures.

There is lots of talks on how to enhance EU competitiveness in green technologies, also in response to the IRA and China subsidies. To deliver on investment, designing European solutions is an important part of the answer. Already today, the level playing field within the EU single market is challenged, especially for business and labour regulations.

With the need to fully exploit the potential of the EU single market, to reap the competitive benefits of market scale.

We claim the starting point should be an effective EU single market for clean technology, offering the scale and predictability European producers and innovators need. This comes with strong and predictable internal demand, avoiding regulatory costs associated with fragmentation, reducing (and equalising within the EU) administrative delays in planning and permitting for green projects, developing unique standard systems to create a more integrated and competitive market.

All of those are necessary steps to create a sizable and predictable market, that should accompany de-risking instruments, designed at the EU level.

Last - a strategy to develop skills (particularly green and digital) as a necessary enabler and complement, in the private and the public sector and a strong imperative to think European. With the need to fully exploit the potential of the EU single market, to reap the competitive benefits of market scale.

PHILIPPE BLANCHOT
Director of Institutional, International and European Relations - Caisse des Dépôts Group

We need to act now before it's too late

The U.N. Intergovernmental Panel on Climate Change (IPCC) has just released the final part of its Sixth Assessment Report - the culmination of seven years of comprehensive analysis on anthropogenic climate change by the world's leading climate scientists. The report delivers a clear message on climate change: We need to act now before it's too late.

The report warns that global emissions are at record highs and current carbon reducing efforts are wildly insufficient: On the current trajectory, we are likely to surpass the Paris Agreement's target of limiting global warming to 1.5°C degrees above pre-industrial levels by the early 2030s.

We need to cut emissions in half by 2030 to be able to avoid irreversible damage. Despite the unprecedented degree of the challenge, the IPCC shows that we have many solutions available to reduce greenhouse gas (GHG) emissions and accelerate the phasing out of fossil fuels.

Europe is at the forefront to fight climate change through its European Green Deal, with the 2030 emissions reductions legislated for in the EU Climate Law. With its Fit for 55 package, the EU is acting decisively to cut net emissions by at least 55% by 2030 and pave the way to reach climate neutrality by 2050.

Solutions exist, policy makers are aware, and funding is available… But, although global climate adaptation and mitigation finance has shown an upward trend in recent years and success in reducing emissions has been demonstrated, current mobilisation of finance allocated to the green transition remains insufficient. Public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation…

We need more incentives and financial players both able and willing to invest long-term. In Europe, National Promotional Banks and Institutions (NPBIs), such as Caisse des Dépôts, are established actors in financing of the green transition. With a combined balance sheet of € 1.7 trillion of the 31 NPBI members of the European Long-Term Investors Association (ELTI), NPBIs channel funds towards long-term green investments in form of loans or equity.

At Caisse des Dépôts, for example, we are committed to finance the transition towards a resilient carbon-neutral French economy through an ambitious sustainable investment policy relying on increasing funding in favour of ecological and energy transition, phasing out climate-damaging finance (exit from thermal coal, gradual withdrawal of unconventional hydrocarbons), decarbonising our portfolios through shareholder engagement and the companies we support.

We need more incentives and financial players both able and willing to invest long-term.

NPBIs combine both financial and project engineering expertise, have robust financing capacities and specific knowledge of both local actors and European institutions. As such, they do have the key assets for financing green transition projects in the territories and thereby contributing to massify investments from both the national sector, the EU, as well as the private sector. They need to go ahead and leverage on private finance, with the support of national and European policies. In this respect, InvestEU is an important milestone.

As part of the European Green Deal, InvestEU provides the European Union with crucial long-term funding scheme by absorbing risks and leveraging substantial private and public funds. The EU guarantee programme InvestEU, building on the success of the Juncker plan, shows how NPBIs unlock important investments in Europe through their direct access to the EU guarantee in their role as implementing partners.

Besides InvestEU, the European Commission introduced a "blending" scheme under the Connecting Europe Facility (CEF), allowing to combine European grants with financial support in form of traditional financial instruments from NPBIs. The scheme currently in force is the Alternative Fuels Infrastructure Facility (AFIF), contributing to decarbonising transport along the Trans-European Transport Network. Even though the conditions more restricted since 2021 (excluding rolling stock), this new instrument became indispensable in the financing of green hydrogen and electric charging stations. Given the difficult situation that energy markets are facing today, blending instruments are more important than ever to trigger works and mitigate financial obstacles linked to high up-front costs.

On a more general note, to meet the objectives of the European green deal, right regulatory incentives are required to allow green investments to thrive. The EU taxonomy is a vital step in directing investments towards sustainable projects and activities. By defining what is "green", the European Commission provides a common language that enables to classify future investments.

InvestEU, blending facilities, taxonomy and adequate financial regulation: We have many financial solutions at hand to fix the climate crisis in the EU. But we need to act now!