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Financing sustainable investments takes more than goodwill

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Financing sustainable investments takes more than goodwill

Bonn, 2 September 2013. We need a green transformation, but unfortunately we do not know how to finance it. This is why the heads of state and government need to launch a knowledge and transparency initiative for financing sustainable investments at the G20 Leaders' summit in St. Petersburg at the end of this week. But one thing at a time...

Why do we need a green transformation?

The challenges posed by climate change are looming larger all the time, not least for the general population. There is a broad consensus that future investments need to be as green and sustainable as possible if we are to prevent an even greater rise in temperature and to adapt our everyday lives and working practices to the new climatic conditions. The High-Level Panel on the Post-2015 Development Agenda (set up by Ban Ki-moon to advise on the global development framework beyond 2015, the target date for the Millennium Development Goals) also proposed a green transformation in its recently published report.

For emerging economies and developing countries in particular, the incorporation of sustainability targets into the wording of the new development goals represents a new concept of growth and poverty reduction. The report gets straight to the point: if we fail to get a handle on climate change, we will be unable to fight extreme poverty effectively.

Why do we not know how to finance a green transformation?

It is estimated that between USD 1 and 2 trillion per year will need to be invested in green infrastructure (such as energy supply, transport systems and urban planning) in developed and developing countries over the next few years. We do not need to repeat the fact that state budgets, still reeling in the aftermath of the last financial crisis, will be unable to provide such sums of money.

Private and/or institutional investors (such as pension funds, insurance companies and sovereign wealth funds) do have the necessary capital

to finance a green transformation, as they manage assets worth several trillion US dollars and, unlike commercial banks, have a definite interest in long-term investments. Unfortunately, however, the sustainable investment activities of these investors are negligible, particularly for investments in developing countries and emerging economies. The reasons for this are straightforward: as subsidies for fossil fuels remain high, green investments appear unnecessary and unprofitable. Moreover, these groups of investors consider the risks of sustainable capital investments to be too high.

Why do we need a knowledge and transparency initiative?

Another possibility for financing a green transformation is to alleviate the impact of disincentives and to provide positive incentives through the targeted use of public funds. Even at a time when state budgets are being squeezed, this approach is still feasible, as it only involves the use of a small fraction of the overall financing volume. In this way, public donors and development-financing institutions can motivate private and institutional investors to inject capital into green investment products. This is particularly relevant for investment projects in developing countries and emerging economies.

Unfortunately, however, we do not know a great deal about mobilising private capital for sustainable investments. There are indeed many international processes and initiatives for promoting sustainable investments. For example, the G20 has processes for "Green Finance" and "Long-term-Investments", the UN Climate Secretariat is focusing on "Climate Finance", and the World Bank is discussing "Green Growth". However, these discussions are often conducted in isolation from each other, with little dialogue between the different actors, and many of these and other relevant terms are inadequately defined. More problematic still is the fact that much of the detailed information on green-project financing is either not publicly available or is incomplete.

In order to use the limited funding as effectively as possible to mobilise as much private capital as is feasible for financing a green transformation, a rigorous examination of past experiences is crucial. Systematic analysis of the financing details of implemented projects would make it possible to draw initial general conclusions and to derive policy recommendations, for instance, on the future use of public funding for climate financing. We can only mobilise private and institutional investors to the extent required for a green transformation once we have a better understanding of how to finance sustainable investments.

This is why we need an international initiative designed to bring about a green transformation with the necessary urgency and scope. That is to say that the purpose of this initiative must be to bring politicians together to agree on universally applicable definitions, to ensure that development financing institutions provide the required data, and to enable the academic community to generate the relevant knowledge.

Why should the G20 launch such an initiative?

Climate change is a global phenomenon and financing a worldwide green transformation represents an extremely pressing global challenge. The G20 is the proper forum for tackling global challenges and has the best chance of doing so in a way that gets all relevant actors around the world acting in concert. Top priority must be given to financing the green transformation. This week's G20 summit in St. Petersburg represents an opportunity for heads of state and government to set things moving in this direction by launching a knowledge and transparency initiative for the financing of sustainable investments.



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