



CLIMATE
CHANCE
2020

GLOBAL OBSERVATORY
ON NON-STATE
CLIMATE ACTION

Summary
for decision-
makers

GLOBAL SYNTHESIS REPORT ON CLIMATE FINANCE

ASSESSING FINANCIAL ACTORS' CLIMATE ACTION



FINANCE
FOR TOMORROW
by Paris Europlace



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Climate Chance Association

Since 2015, the Climate Chance Association has participated in the mobilisation against climate change. It is the only international organisation that aims to bring together all the non-state actors recognized by the UN (the 9 groups of actors: local authorities, companies, NGOs, trade unions, scientific community, agricultural, youth, indigenous peoples and women organisations), to develop common priorities and proposals and to strengthen stakeholders dynamics through networking (thematic coalitions, summits, action portal).

The Climate Chance Association and its Observatory are supported by



Finance for Tomorrow

Finance for Tomorrow Finance for Tomorrow, launched in June 2017, is the branch of Paris EUROPLACE to make green and sustainable finance a key driving force in the development of the Paris Financial Center and to position it as a hub of reference on these issues. Our +80 members are signatories of a common charter to contribute to the transformation of practices in the Paris Financial Center and to a global shift of financial flows towards a low carbon and inclusive economy, in line with the Paris Agreement and the UN Sustainable Development Goals.

www.financefortomorrow.com



I-Care & Consult

I Care & Consult is an environmental strategy consulting company whose ambition is to support public and private organizations in their **"environmental transition"**, by changing the paradigm from a society with a strong footprint towards a society with high environmental productivity.

CLIMATE FINANCE SYNTHESIS REPORT 2020

Transparency on climate-related risks and opportunities

"2019 key figures of climate finance"

Support TCFD's recommendations

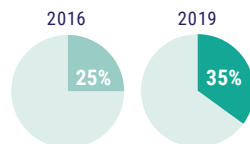


"committed to applying its climate reporting framework in whole or in part"

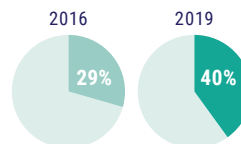
Source: TFSB TCFD, February 2020

Asset owners and asset managers

"Climate finds a place in asset management..."

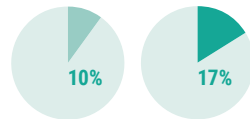


35% ARE REDUCING EXPOSURE TO FOSSIL FUELS, VS. 25% IN 2016

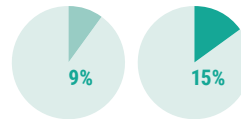


40% TAKE CLIMATE ISSUES INTO ACCOUNT IN FINANCIAL DECISIONS, VS. 29% IN 2016

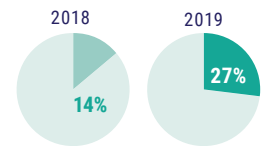
"...But climate is not yet a strategic issue"



17% INTEGRATE CLIMATE INTO THEIR ASSET ALLOCATION, VS. 10% IN 2016



15% SET CLIMATE-RELATED TARGETS, VS. 9% IN 2016

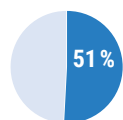


27% CONDUCT CLIMATE-RELATED SCENARIO ANALYSIS, VS. 14% IN 2018

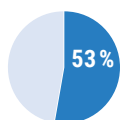
Source: PRI snapshot of some 1700 investors and asset managers, 2019.

Banks

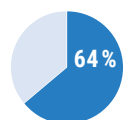
"Banks perceive climate-related risks and opportunities..."



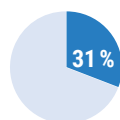
OFFER GREEN FINANCIAL PRODUCTS



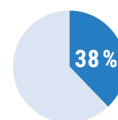
HAVE PROCESSES FOR MANAGING CLIMATE-RELATED RISKS



DISCLOSE THEIR CARBON FOOTPRINT



MEASURE THE CLIMATE IMPACT OF THEIR FINANCING ACTIVITIES

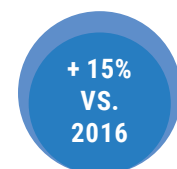


CONDUCT CLIMATE-RELATED SCENARIO ANALYSIS

"...but have room to improve their impact on the climate"

Financing for fossil fuels

\$736 BILLION IN 2019



Source: BCS 2019 report covering 39 banks reporting according TCFD recommendations, representing 40% of global banking assets.

Source: Banking on climate change Fossil fuel finance report 2020.

International public funding

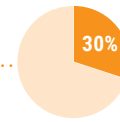
Multilateral Development Banks: alignment in progress

62

BILLION DOLLARS IN 2019

+70%

ADDITIONAL CLIMATE FUNDING BETWEEN 2015 AND 2019



IN 2019: CLIMATE FUNDING REPRESENT OVER 30% OF THEIR ACTIVITY.

Source: Joint report on MDBs climate finance 2019

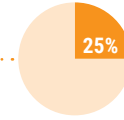
Regional and national development banks: a high potential

190

BILLION DOLLARS CLIMATE FINANCE COMMITMENTS IN 2019

87%

OF CLIMATE FINANCE IS DOMESTIC



IN 2019: CLIMATE FUNDING REPRESENT OVER 25% OF THEIR ACTIVITY

Source: IDFC Green Finance Mapping Report 2019

The Green Climate Fund

6.2

BILLION DOLLARS COMMITTED

143

PROJECTS APPROVED

1.2

BILLION DOLLARS DISBURSED

Source: Green Climate Fund, August 2020

Green and sustainable financial products: small markets but high growth

Sustainability linked loans:

122
BILLION DOLLARS ISSUED

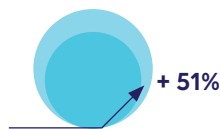


● 2018 ● 2019

Source: Climate Bond Initiative, Bloomberg

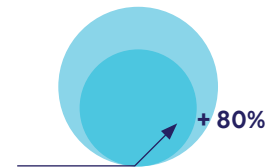
Green bonds

260
BILLION DOLLARS ISSUED



Green and sustainable debt

465
BILLION DOLLARS ISSUED



Financial regulation and supervision: drivers of action

66

CENTRAL BANKS AND FINANCIAL AUTHORITIES BELONG TO THE NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS) VS. 8 IN 2017.

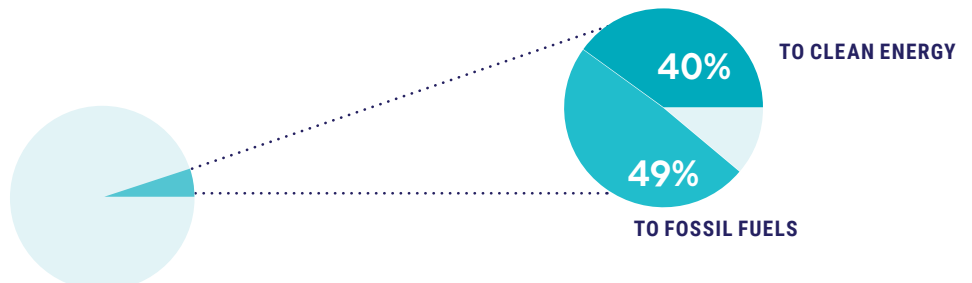
>390

AND SUSTAINABLE FINANCE POLICIES AND MEASURES AROUND THE WORLD, 2X NUMBER IN FORCE IN 2015

TAXONOMY OF GREEN ASSETS: UNDERWAY IN EUROPE AND CANADA, UPDATING IN CHINA

Stimulus plans: a crucial role to shift capital

"3 to 5% of G20 stimulus packages go to energy"



Source: Energy Policy Tracker, August 2020

KEY TRENDS

Recent trends in green finance

The emergence of transition finance as a major theme

Many tools and methodologies are now in place or under construction for greening the financial sector. That this broad-based movement is not reflected in sufficient volumes of financing is notably because it is impossible to move quickly from financing the existing economy, especially in the midst of a crisis such as the world is currently experiencing, to financing exclusively assets and activities adapted to a carbon-neutral world.

To date, the spotlight has been trained on assets at risk from transition, which initial investigations carried out in 2018 by a few European financial authorities have estimated at some 10% of banks' balance sheets. Emphasis has also been placed on green assets, which appear to constitute at best 20% of portfolios among even the most involved players. According to an EIOPA estimate,¹ they make up around 5% on average of European insurers' portfolios. However, not all assets between these two poles are neutral, and it is important that they too evolve.

To this end, the concept of transition finance has recently emerged.² This term was coined to describe financing for companies that are progressively reducing their carbon emissions. Criteria for debt instruments are currently being explored. The European taxonomy project also includes a category for businesses in transition. However, criteria capable of completely eliminating the risk of greenwashing have yet to be defined. To this end, release of the *'Framework for Financing a Whole-of-Economy Transition'*, promised for November by Mark Carney, now climate advisor to the UK Presidency of COP26, is a step awaited with great anticipation.

The global health crisis highlights the need to make

Just Transition a reality

The concept of Just Transition, born several years ago, is finding its first operational response in impact debt tools such as sustainable bonds and loans along with their various permutations. The European taxonomy attempts to take this into account as well, with the introduction of minimum social criteria for an activity to be considered sustainable. The challenge today is to generalise this notion within the financial sector to ensure that the low-carbon transition can be socially acceptable. This process also reflects a desire on the part of those providing financing to achieve greater impact by linking social and environmental issues, as proposed in the structure of the Sustainable Development Goals.

1 <https://www.eiopa.europa.eu/content/eu-sustainable-finance-taxonomy-perspective-insurance-and-reinsurance-sector>

2 See for example: <https://www.climatebonds.net/transition-finance/fin-credible-transitions>

Deploying strategies in line with the Paris Agreement and achieving net-zero emissions by 2050

For the past two years, this ambition has gained ground as the search for a suitable methodology continues. First made by public development banks, this commitment is being extended to the private financial sector. It is also taking root among companies, whether spontaneously or under pressure from investors, who are making it an increasingly explicit requirement. The publication of undisputed sector scenarios and national transition strategies worldwide would greatly facilitate these alignment strategies.

The need for accurate and relevant information

Despite efforts to increase transparency on climate-related risks and opportunities, the financial community considers that companies still fail to provide them with the practical information needed to make informed financial decisions. Likewise, the climate, environmental and broader sustainability performance of financial products and services that claim such ambitions remains difficult to assess and compare. Any resolution of these issues will entail a generalisation and standardisation of mandatory disclosures, which is something regulators can impose. Europe is well on the way to achieving this already. The creation of open-access, verified databases would facilitate access to this information. Meanwhile, artificial intelligence tools are beginning to emerge to analyse this data and provide guidance for decision-making.

Orienting the public money earmarked for crisis recovery is a critical issue

Lastly, a further issue arises from the coronavirus pandemic and the massive public funding deployed to revive the world's economies. This situation calls for environmental and social considerations to be taken into account in choosing priorities for funding and measuring their impact. While emergency measures to date appear more conservative than transformative, it is important that the recovery plans currently being designed and deployed not be a missed opportunity for building a more sustainable, low-carbon economy.



www.climate-chance.org



www.financefortomorrow.com