Climate summit: The greening of international finance

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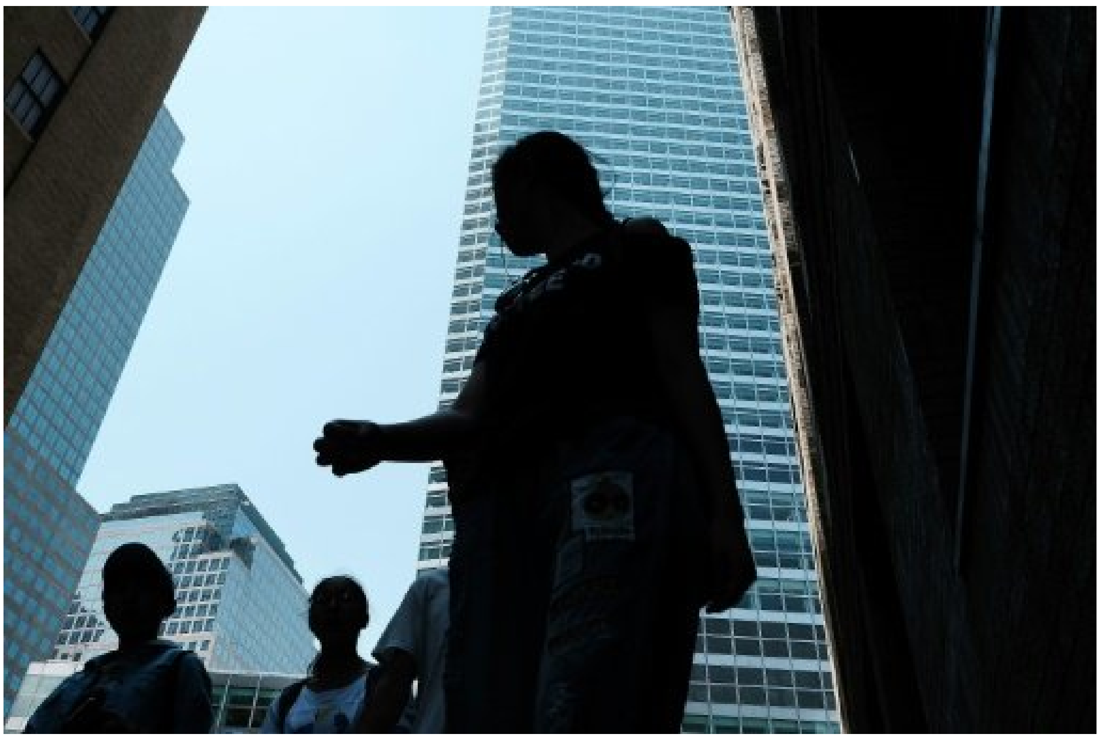

Green bonds, anyone?

It is often said that the colour of money is green, but until recently the finance industry hasn't been well adapted to helping achieve policy objectives for the environment.

New instruments have been developed to help mobilise financing for projects to mitigate climate change, some of which have caught on, but measuring their impact remains difficult.

Green bonds

Also known as climate bonds, these have quickly become the major weapon in the funding arsenal. Green bonds are debt issued to finance projects that have a positive impact on the environment. The amount issued has jumped in 2017, particularly in Europe.

"For 2017 the issuance of green debt has already reached 125 billion euros ($147 billion)" against 90 billion euros in 2016, said Stephane Marciel, who manages sustainable bonds at the commercial and investment banking unit of French lender Societe Generale.

France set an example by placing 7 billion euros in green bonds at the beginning of 2017.

"We're convinced that other countries are going to follow, as that is the way history is going," said Marciel.

"Companies have made real progress as well," said Jerome Pellet, who heads up the issuing of socially responsible bonds at HSBC.

Whether its Deutsche Bahn in Germany, China's ICBC, the world's largest bank by assets, or French energy company Engie, the list of firms issuing green bonds is growing.

For borrowers "it could even be cheaper" given the strong demand for the bonds, said Pellet.

Even if the volume of green bonds remains marginal compared to the volume of total debt issued, the trend is positive for green bonds.

Carbon pricing

At the beginning of September 40 countries plus 25 provinces and cities began charging for carbon emissions in order to encourage firms to reduce their production of carbon dioxide, one of the gases that causes global warming.

It shows positive momentum even if the number of countries remains too small and the prices are too low at between 5 and 15 euros per tonne of CO2.

"Carbon prices need to be increased in order to send a powerful signal right across the economy to ensure investments are better aligned with the Paris goals," said Simon Buckle, head of climate change at the OECD.

A green FTT?

It may be the Loch Ness monster of European policy, with sightings every few years only to later disappear from the scene, but the latest incarnation of the financial transactions tax (FTT) would have the levy go towards development projects.

The financial sector has resisted FTT proposals, which call for a tax on each financial transaction, arguing they harm trading on markets.

NGOs were pleased when French President Emmanuel Macron in a September speech resurrected the idea of a FTT, which currently exists only in Britain and France.

A FTT is not expected to be discussed during the climate summit.

ESG or SRI investment funds

Private investment funds that incorporate Environmental, Social and Governance (ESG) factors first are growing fast. Also called Sustainable, Responsible and Impact (SRI) investing, it expanded by a third between 2014 and 2016 in the United States, according to USSIF, the Forum for Sustainable and Responsible Investment.

It estimated SRI investments at $8.7 trillion in 2016 out of a total of $40.3 trillion in assets under professional management.

Under pressure from investors more funds and lenders are shying away from funding fossil fuel projects, in particular coal-fired power plants, as they are a major contributor to greenhouse gas emissions.

Appearances, reality

While the mobilisation of funds for green projects has been conspicuous, measuring its impact has been more difficult.

Pressure groups such as Attac have criticised that there are no rules on what a green bond can or cannot fund.

Regulators in several countries have stepped in with labels that are supposed to help investors identify funds dedicated to green projects.

The Financial Stability Board, created by the Group of 20 nations, for it its part has issued recommendations for firms on how to make climate-related financial disclosures in their annual reports.

For green bonds, which are still relatively new, "there remains lots of fundamental work to do to improve impact reporting methods," said Marciel at Societe Generale CIB.

He said pressure from investors had already pushed funds to carry out considerable work.