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Finance

Supporting the transition to a global green economy

Acknowledgements

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List of acronyms

A/R	Afforestation and Reforestation
ADB	Asian Development Bank
AUM	Assets under management
BAU	Business-as-usual
BCBS	The Basel Committee on Banking Supervision
BES	Biodiversity and Ecosystem
BIS	The Bank for International Settlement
CCX	Chicago Climate Exchange
CDM	Clean Development Mechanisms
CERC	Search Results Central Electricity Regulatory Commission
COP	Conference of Parties
DFI	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESG	Environmental, Social and Governance
EU ETS	EU Emissions Trading System
FDI	Foreign Direct Investment
FMO	The Netherlands Development Finance Company
FSB	Financial Stability Board
G20	Group of Twenty
GEF	Global Environment Facility
GDP	Gross Domestic Product
GHG	Greenhouse gas
GIB	Green Investment Bank
GRI	Global Reporting Initiative
IEA	International Energy Agency
IFC	International Finance Corporation
IFLS	International Financial Services London
IIRC	International Integrated Reporting Committee
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
KfW	German Development Bank
KP	Kyoto Protocol
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
NAMAs	Nationally Appropriate Mitigation Measures
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PE	Private equity
PFMs	Public Financing Mechanism
PRI	United Nations-backed Principles for Responsible Investment
R&D	Research and Development
REDD	Reducing Emissions from Deforestation and Forest Degradation
REN21	Renewable Energy Policy Network for the 21st Century
RICS	The Royal Institution of Chartered Surveyors
SWFs	Sovereign wealth funds
TEEB	The Economics of Ecosystems and Biodiversity
UNDP	United Nations Development Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNEP SBCI	United Nations Environment Programme Sustainable Buildings and Climate Initiative UNEP
SEFI	United Nations Environment Programme Sustainable Energy Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UOT	Universal Ownership Theory
US SEC	U.S. Securities and Exchange Commission
VC	Venture capital
WBCSD	The World Business Council for Sustainable Development
WEF	World Economic Forum
WFE	World Federation of Exchanges
WRI	World Resource Institute
WWF	World Wide Fund for Nature

Key messages

1. A global green economy transformation will require substantial financial resources. Indicative figures such as those from the International Energy Agency's (IEA) scenarios for halving worldwide energy-related CO_2 emissions by 2050 and on modelling, in this report, show additional investments required will likely be in the range of 1 to 2.5 per cent of global Gross Domestic Product (GDP) per year from 2010 to 2050. A considerable amount of investment will be needed in energy supply and efficiency, particularly in greening the transport and buildings sectors.

2. Financial investment, banking and insurance are the major channels of private financing for a green economy. The financial services and investment sectors control trillions of dollars that could potentially be directed towards a green economy. More importantly, long-term public and private institutional investors, banks and insurance companies are increasingly interested in acquiring portfolios that minimise environmental, social and governance risks, while capitalising on emerging green technologies. Microfinance has a potentially important role at the community and village level to enable the poor to invest in resource and energy efficiency as well as increase their resiliency to risk.

3. Opportunities exist to meet the financing needs of a green economy. The rapid growth and increasingly green orientation of capital markets, the evolution of emerging market instruments such as carbon finance and microfinance, and the green stimulus funds established in response to the economic slowdown of recent years, are opening up space for large-scale financing for a global green economic transformation. But these flows are still small compared to investment needs and must be scaled up quickly if the transition to a green economy is to jump-start in the near term. Concentrated pools of assets, such as those controlled by pension systems and insurance companies, the US$ 39 trillion-plus controlled by the high net worth community and the growing assets of sovereign wealth funds will need to support the green economy in coming decades.

4. Advances in disclosure and sustainability reporting are increasing transparency and driving change. In 2009, the global market size for institutional assets was estimated at just over US$ 121 trillion. Of the actively managed components of these assets, controlled by a broad range of large institutional investors, some 7 per cent was subject to the integration of environmental, social and governance (ESG) considerations. Considering the environmental costs attributable to business and human activity – estimated at more than US$ 6 trillion in 2008 – much more transparency is needed. Scaling up resources for investment adhering to ESG principles is urgent and will require innovation and leadership by business and industry, collective action and public-private approaches as well as supportive regulatory frameworks.

5. The role of the public sector is indispensable in freeing up the flow of private finance towards a green economy. Governments should involve the private sector in establishing clear, stable and coherent policy and regulatory frameworks to facilitate the integration of ESG issues into financial and investment decisions. In addition, governments and multilateral financial institutions should use their own resources to leverage financial flows from the private sector and direct them towards green economic opportunities.

6. Public finance is important for triggering a green economic transformation, even if public resources are significantly smaller than those of private markets. The role of public development finance institutions (DFIs) in developed and developing countries in supporting the transition to a green economy could be strengthened further. Development Finance Institutions can adopt the goal of supporting development of the green economy, allocate significant proportions of their new lending towards financing green economy transition projects and link it to specific targets such as reduction in greenhouse gas (GHG) emissions, access to water and sanitation, biodiversity promotion and poverty alleviation. Policies can be designed to improve the "green efficiency" of their portfolios, for example, by examining the carbon and ecological footprints of their investment portfolios. In addition, DFIs can jointly define protocols for green due diligence, as well as standards and goals for sectors in which they have a major influence, such as transport, energy and municipal finance.