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ADVANCING SUSTAINABLE FINANCE: PRIORITIES FOR EUROPE

This briefing sets out how advancing sustainable finance can address new European challenges, recommending seven actions for the onset of the next European Commission.

Emerging challenges

- **Technological shifts are disrupting politics and the economy.** Digital technology, automation and Artificial Intelligence offer opportunities but are also creating economic disruption and facilitating disinformation and populist movements. Meanwhile, the climate crisis requires a structural economic transformation.
- **The financial outlook for the economy is gloomy.** Europe's economy grew by only 1.1% in 2019 so far in the face of multiple risks¹. Global market indicators are unfavourable^{1a} and European sovereign bonds have negative yields, indicating likely recession^{1b}.
- **Europe faces growing pressures on its internal cohesion and unity.** Pressures include Brexit, internal disputes over human rights and governance including how to manage flows of refugees and migrants, demographic challenges and the rise of populism.
- **Geopolitical instability is rising.** An insular US has begun a trade war with China, hurting European industry. More frequent and intense extreme weather events, with effects including floods and forest fires, migration and conflict, are putting strain on economies.

How can sustainable finance address these challenges?

Sustainability and inclusivity are guiding principles for Europe's finance policy. By renewing this vision, the Commission can address the four key challenges above in ways that will:

- **Realise a Structural Economic Transformation and Capitalise on Technological Shifts:** financing the fourth industrial revolution and increasing investments and innovation in a truly clean economy, including in clean infrastructure.
- **Strengthen the Economy and Rebuild the Social Licence to Operate:** rebuilding European public confidence that the financial system is there to direct money towards investment that delivers the future Europe they want.
- **Provide Inclusive Access to Capital for All Europe:** rebalancing access to affordable capital across the EU to deliver socially sustainable investment needed to meet the net zero target, and in particular ensuring that finance flows to the East in areas such as distributed clean energy, efficiency, smart system and resilience projects.



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- **Protect European Citizens and Offer a Fair Deal for Savers:** protecting European savers, who are still being exposed to risks they cannot see or control by financial institutions that continue to invest in companies and projects which could be made worthless by climate policy or impacts. By not doing this, savers are missing out on the higher long-term returns achieved from greater investment in sustainable infrastructure.

Actions for the onset of the next Commission:

1. **Create a European Observatory on Sustainable Finance**² to monitor progress and provide oversight for financing the EU's economic and industrial transformation, acting as the core component of a continued sustainable finance reform agenda and European Green Deal.
2. **Prepare Economic Stimulus Measures Targeting Long-term Sustainable Impact.** The European Commission should instruct the European Central Bank and European Investment Bank to prepare stimulus measures immediately which focus on strengthening the economy through its social and environmental priorities.
3. **Use the European Investment Bank to Build a Pipeline of Sustainable Projects** that can attract private investment across Europe. Projects should align with the taxonomy³ and increase the share of sustainable economic activities within the least advanced sectors, such as energy efficiency and climate resilience, and geographies of Europe.
4. **Apply Strict Climate Proofing to the Multiannual Financial Framework** to phase out public funding of activities that are not sustainable under the taxonomy to reduce risks.
5. **Create a Platform for Financing Regional Transitions**⁴ to provide support for areas of Europe that will be affected by the climate transition either through economic restructuring or increased climate impacts. This platform should bring together communities, business, investors and local government to identify transition roadmaps and financing plans for sustainable development and a just transition⁵.
6. **Prioritise Increasing Europe's Climate Resilience** through financial reforms to protect Europe against systemic risks. This includes, amongst others⁶, expanding the taxonomy to define unsustainable activities that entail risk and mandating companies to include information on climate-related financial risks in their annual reports.
7. **Build and Harmonise Global Sustainable Finance Markets** by using the new Alliance for Sustainable Finance, in collaboration with other initiatives⁷, to build regulatory norms across the global financial system.

¹FocusEconomics - [Economic Snapshot for the Euro Area](#) b) Reuters- [Dashboard of a downturn: global recession signals](#) c) CityAM - [Germany sells 30-year bonds with negative yields but demand weak](#)

²The Observatory is based on the recommendation of the [High-Level Expert Group on Sustainable Finance](#), yet the functionality could be expanded to cover the broader needs of energy system transformation - defined [here](#). The Observatory could be operationalised through the Platform on Sustainable Finance, and, if so, done immediately.

³The taxonomy should be available to support transparency by all financial market participants and be continually updated through a robust process considering independent expert advice. The EIB should align all new energy and climate policies with the taxonomy. The Technical Expert Group published its [Technical report](#) in June.

⁴This would build on the experience of the Platform for Coal Regions in Transition.

⁵This action could be linked to the development of new publicly backed innovative financial instruments for the phase out of unsustainable infrastructure to protect consumers/taxpayers and to the concept for a European Climate Pact.

⁶E3G 2019- [Opportunities to integrate disaster risk reduction and climate resilience into sustainable finance](#)

⁷Such as the [Coalition of Finance Ministers for Climate Action](#)