Supporting the Green Economy transition through the finance system

Green Finance has seen a remarkable development since 2015. It has moved from being a belittled idea to a serious debate at highest political level. In the wake of the rapidly growing green bond market, we see that the global finance centres are competing to become the global centre of green finance. Also, the EU has recently started to develop a Green Finance strategy.

The Green finance movement must be seen in the context of changes happening in the wider financial system itself. These changes are resulting from the combined effects of 1) post-crisis reforms, 2) the increasing influence of emerging and developing countries, 3) the disruptive forces of technology across the financial system (Fintech) and 4) new social expectations as to role of finance in society.

“The financial market has clearly identified green finance as a growth area. Now we need to ensure that it delivers real environmental improvements without becoming just another niche product.”

Holger Schmid, Director, MAVA Sustainable Economy Programme

Areas where we see the need for action to advance Green Finance

"Broaden risk assessment to include environmental and natural capital risk"

Today, major global rating agencies are working on integrating climate risk into credit risk rating but limited to carbon emissions and fossil fuel demand. Physical and ecological climate change impacts on agriculture or water supply are still absent but should be included to show the full spectrum of climate risk.

"Use the opportunity of Fintech"

It is believed that Fintech will cause major shifts in banking and finance as we see it today. With new actors and new ways of decision making, Fintech might offer solutions to integrate environmental risks and therefore new opportunities for directing finance into green innovation and the green transition.

"Do not penalise climate vulnerable countries"

More integrated risk ratings can create undesired side effects if climate vulnerable countries see higher risk ratings as making it costlier to raise the necessary finance for their sustainable development pathway and the transition to a green economy. These likely side effects need to be mitigated to avoid a strong political pushback against the green finance agenda.

"Green the mandate of financial institution"

Leading example forms from developed and developing countries have shown that the mandate of those who govern the institutions across the financial system can be broadened to include climate change and sustainable development considerations. In the light of these leading examples, it is now a real option to widen these mandates across the financial system.
HOW WE THINK CHANGE WILL HAPPEN
The action plan is based on a “results chain” elaborated according to the methodology of the Open Standards for the practice in conservation. A summary is presented below.

IMPROVE
- standards and regulations to include environmental impacts and risks

ENCOURAGE
- better performance of green finance in global financial centers

PREVENT
- that climate and environmental risk factors punish the most vulnerable countries

DIGITIZE
- engage in the early development of Digital Finance and use of big data for more environmental transparency and new tools for funding the green economy

INNOVATE
- small grants programme to seed new ideas on how to improve the financial system

Financial risk assessment that include environmental factors becomes acknowledged best practice.
Green finance is defined and performance of green finance centers is assessed
Digital finance offers new ways of financing sustainable development
Financial market develops more products that support the transition to a green economy

WE AIM TO:
Reduce the negative impact of economic activities on nature and people.

HOW IS THIS ACTION PLAN BEING IMPLEMENTED
For most of the principal activities we are working with organisations that we have already identified during the development of this outcome action plan. In some cases, we need to do some more consultations to identify the best partner.
In situation where there is no obvious best choice of partner, we will issue limited calls for proposals to a range of pre-identified organisations or individuals.

We also foresee to grow the ‘ecosystem of organisations’ able to work on green and sustainable finance. We intend to fund new and emerging organisations, ideally in collaboration with larger and more experienced ones.

WHAT IS THE ANNUAL BUDGET?
An annual budget of CHF 2’000’000 is allocated to this action plan.

OUR CURRENT PARTNERS

LINKS WITH OTHER MAVA ACTION PLANS
SE 1 : National Green Economy planning and practice integrate the conservation and restoration of natural capital
SE 3 : Sustainable infrastructure is financially viable and becomes the preferred option for governments, policy makers and investors

Holger SCHMID, holger.schmid@fondationmava.org