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Is Europe ready to tackle its investment gap and to make finance sustainable?

Europe is in urgent need to modernise its economy to answer the challenges of sustainability. In order to achieve its 2030 targets of the Paris agreement, no less than 180 billion euros per year are needed to fill the investment gap in a time when liquidity is more than ever still available.

Financial markets tend to value short-term benefits over long-term returns and plan accordingly, ignoring the impact of climate change as well as the economic potential of sustainable projects. These sectors (insurers, retail banks, etc.) must from now on take on board Environmental, social and governance (ESG) risks and factors in their prices and stop playing a part in "the tragedy of the horizon".

They are not the only one at fault: we should not overlook the investment driving role of the public sector and the required shift in political priorities. These are still largely decided based on a short-term horizon, making policy-makers reluctant to engage the initial costs of sustainable investments, as well as geopolitical concerns which benefit energy security over renewable resources.

The EU is fortunately starting to take the full measure of the challenge. After EFSI 2, that will – with the strong input and support of the European Parliament - spend at least 40% of its resources in infrastructure investments projects that contribute to reaching the Paris Agreement climate goals, the High-Level Expert Group on Sustainable Finance published a seminal report in January and the Commission an action plan in March.

The European Parliament is currently adopting an initiative report, where priorities will be identified and policies able to operate a real change in the financial world proposed.

First, information on the level of sustainability of investments has to be spread to all actors. Relying on the public's growing interest in environmental matters, the customers should be informed about their sustainability, as an extension of the fiduciary duty of financial intermediaries.

Higher in the financial chain of value, companies and actors such as insurers and accountants must be required to disclose material information on key ESG aspects and how they are considered or dealt with in the decision-making process.

This information should be processed and assessed by sustainability benchmarks and rating agencies that would provide clear guidance to market participants.

Finally, the public and regulatory sector are expected to take a major part to play. Initially, sustainability was unfortunately not a major concern in the Juncker plan. It is time now to give way to an ambitious policy of green and socially conscious public investment, for example by issuing green sovereign bonds.

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This is a request we have been making for a very long time. We must finally be heard. The same spirit now must feed into the future Multi-annual Financial Framework (MFF) that should duplicate the target of 40% EU spending contributing to the Paris agreement.

We know that voluntary measures and best practices guidelines will not be sufficient; we have to settle binding legislative action to force the redirection investment flows. This is the only way to provoke a real impact on society and the environment.

Last not least, if sustainability concerns are already included in existing financial legislations (PRIIPS, IORP), they now need to be included in the mandate of the European supervisory authorities (ESAs), which could supervise carbon stress tests. I shall propose it in the report on ESAs review.

EU has a major opportunity to take concrete action to manage its transition to a low-carbon economy, meet the COP 21 climate change goals, while making growth sustainable and boosting employment. Let's green the finance!