

Sustainability must be banks' new priority

Emma Navarro

Climate risks are real and mounting, and it is crucial for the financial community to act together in backing a more sustainable, circular economy, says Emma Navarro of the European Investment Bank.

THE NEED FOR SUSTAINABLE ECONOMIC AND BUSINESS MODELS is more urgent than ever as temperatures continue to rise and natural resources become increasingly scarce. Achieving such models will require everyone's firm commitment. Sustainability lies at the heart of what the European Investment Bank (EIB) does and has already led to concrete action.

Sustainability shapes the EIB's activities and investment decisions. We appraise and monitor all investment projects we finance based on their sustainability credentials, such as environmental, social and governance aspects. We also perform an economic appraisal to assess the socio-economic costs and benefits and ensure the projects we finance make a sound contribution to society.

AN INVESTMENT CLIMATE

Climate has long been a top priority for the EIB. As the EU's climate bank and the largest multilateral provider of climate and environment financing worldwide, we aim to mobilise financial resources across the planet towards climate-related investments. Our determination is reflected in our ambitious climate financing targets and strategy. In support of the Paris Agreement, we committed to providing \$100bn for climate mitigation and adaptation projects in the five years up to 2020, and we are on track to deliver.

Our efforts are also visible in our leading role in the green bond market. In 2007, the EIB issued the world's first green bond and since then has sold more than €24bn-worth. In 2018, the bank went a step further, launching the new sustainability awareness bonds to mobilise financing for other areas of environmental and social sustainability beyond climate.

Yet real and systematic change towards sustainability will require moving away from 'business as usual'. A shift is needed towards a more circular economy, a new model where products and business processes are designed to minimise raw materials, waste and environmental damage. The EIB, already a major partner for circular economy investments, is stepping up efforts to support this transition.

Current levels of investment are insufficient to support the transition to a low-carbon, climate-resilient economy. Private financing has to scale up and be allocated towards sustainable projects. In a nutshell, the financial system needs to become greener. For this to happen, investment decisions need to factor in properly climate-related risks and other long-term sustainability



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considerations. We also need to increase transparency and accountability regarding climate risks.

All this must begin with a shared understanding of what 'sustainability' means. Today initiatives in this direction are gathering momentum, with the EU leading the way with its ambitious Action Plan on Sustainable Finance. The EIB is an active contributor to the development of an EU taxonomy for environmental sustainable economic activities that will create greater transparency and harmony in standards, which is critical to unlocking sustainable finance at the scale needed.

COMMON FRAMEWORK

Multilateral financial institutions such as the EIB can also play a key role to help unlock additional climate financing. However, while climate financing is an important part of the solution, we need to go further. We also need to look at the rest of our financing, to make sure that it does not undermine our efforts to support the Paris Accord. This is why the EIB is working with other multilateral development banks to develop a joint framework to align all our financing and activities with the goals and principles of the Paris Agreement – a common approach that will be presented in the upcoming climate convention in Chile in December 2019.

At the EIB, we are progressing in mainstreaming climate-related considerations across all our activities. We have launched a climate risk assessment system to help us identify and manage the physical climate risks of new operations. We have also created a task force to enhance our consideration of all climate-related risks in our portfolio, both physical and transition risks. Our efforts will be strengthened with our ongoing review of our energy lending policy and the mid-term review of our climate strategy, upon which we have recently embarked.

Moving towards a more sustainable, low-carbon economy is not an easy task. The challenge is huge, but there are substantial opportunities to be seized, including the significant potential for increasing competitiveness, stimulating innovation and boosting growth and jobs. Climate risks are real and mounting, and their size in the future will depend on our efforts today. We need to act before it is too late – and we will succeed if we all work together. 

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