PRESS RELEASE

Sustainable, green finance: exploring new markets
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The growing interest in sustainable, responsible investments goes hand-in-hand with a number of recent developments at global level. In the forefront of the impending substantial changes is consideration for the climate change caused by economic activity. The need to limit global warming and the commitments which countries have made in that regard have sparked debate on the importance of transforming production processes and their financing. As regards energy production, transport, and energy efficiency in particular, massive investment in green projects will be needed in the near future to meet the climate targets. However, those projects feature some characteristics (long-term horizon, use of new technologies, complexity, associated risks and uncertain returns) that necessitate a change in the current capital market framework.

A number of factors still hinder the supply of sustainable, green finance. For one thing, the carbon market in its current form does little to penalise polluting industries and therefore fails to take full account not only of harmful effects on the climate but also of the beneficial impact of sustainable, green investment. Moreover, the returns on those investments do not yet appear sufficiently attractive for potential investors. In addition, some of the economic policies or rules prevailing on the financial markets are still inadequate to encourage a smooth transition for the financing of the economy and avoid the creation of stranded assets (assets which are devalued due to sudden and substantial changes in environmental constraints, for instance). These imperfections, coupled with the relative absence of transparency, the lack of any shared definitions, and the need to supervise financial products labelled as sustainable, are slowing down the development of these products.

Conversely, green bonds, which are usually dedicated to clearly identified projects, are proving to be a promising example of a sustainable financial product. This market, originally dominated by international public institutions, is now receiving investment from the private sector and local authorities to fund a range of projects (renewable energy, energy efficiency, transport infrastructures, etc.). Green bonds present a number of advantages for both issuers and investors, offering them enhanced transparency and predictability. However, they are also associated with additional costs (labelling, reporting) and entail risks relating to their credibility, greenwashing (misleading customers about the environmental benefits of a product for marketing purposes) or counterparty risks.

In Belgium, as in Europe, the legal context is being changed to promote green finance. At the same time, private initiatives are emerging for the purpose of devising sustainable labels or harmonising definitions and increasing the transparency of the financial products involved. However, the volume allocated to sustainable investments remains relatively small at present, as regards both investment funds and savings products.

In order to satisfy the growing demand, the supply of sustainable, green finance will have to address a number of challenges, and the public authorities have a major role to play here. They have various mechanisms at their disposal for channelling the flow of funds towards more environment-friendly industrial projects that show greater respect for other social and ethical criteria or those relating to better governance. These mechanisms concern incentives (definition of binding targets, consideration of externalities), legislation (establishment of supervisory bodies, consideration of the long-term risks), and market transparency (labelling, creation of equity and bond indexes).