



Finance & Eco-Innovation

A Key Dimension of Green leadership for Europe
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Europe can take the lead in the new low carbon economy only if it takes the lead in “finance & eco-innovation”. This is the message addressed to the European Business Summit as well as to the EU Institutions by the Banque Populaire, the Rabobank and Triodos Bank. The European Platform on Finance & Eco-Innovation has prepared this statement by Banks. The Platform facilitates public-private dialogue and partnership on **“green banking and financial tools, a field of eco innovation”** at European and EU Member States levels, as well as between European stakeholders and their counterparts in emerging economies. Our goal is to accelerate and scale up necessary action to reach the sustainability targets as defined by the European Union and implement the Climate Change and Energy Package.

Europe must establish its lead on “finance & eco-innovation”. As underlined by a report just published ‘Funding the Development of Environmental Technologies’ (FUNDETEC) which is benchmarking systems in place in Europe, North America and Asia, *“the competitiveness between global regions is expanding to include public policy and financing considerations. Those regions and nations that develop and implement the most effective mix of public policies, regulations, incentives, and public-private partnerships to finance eco-innovation will be the most competitive in developing, producing, and exporting eco-technologies. Banking and finance play an essential role in this mix, as access to capital enhances competitiveness”.*

So are we equipped to be leaders in green banking tackling climate change ? The answer is, sorry no ! The FUNDETEC report demonstrates that EU Competitiveness on the Financial Market for Clean tech addressing climate change is very low. Dialogue and partnership between Member States ministries of finance, European Union institutions, public and private banks and other interested parties to secure improvement in – and an optimal combination of – mechanisms to mobilize the necessary investment and financial flows to address climate change and eco-innovation is urgently needed at EU, national and regional levels.

There is no lack of private funds available to address climate change. But the public-private mechanisms needed are not there yet. In a recent report, the UNFCCC analysed existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change. According to this report: *“With appropriate policies and/or incentives, a substantial part of the additional investment and financial flows needed could be covered by the currently available sources. However, improvement in, and an optimal combination of mechanisms (...) will be needed to mobilize the necessary investment and financial flows to address climate change. The carbon market (...) would have to be significantly expanded to address needs for additional investment and financial flows. National policies can assist in shifting investments and financial flows made by private and public investors into more climate-friendly alternatives and optimize the use of available funds by spreading the risk across private and public investors”*.

We wish to underline 2 issues which need to be addressed urgently if we want really Europe to lead in finance & eco-innovation :

- **Climate Change. A Partnership with Ministers of Finance ?** *“Designing a long-term solution to climate change is mainly a challenge of intelligent financial engineering,”* Yvo de Boer, head of the UN Framework Convention on Climate Change (UNFCCC). *“The role of the finance ministers is to lead this discussion so that we have wider policy options,”* Indonesian Finance Minister Sri Mulyani Indrawati. Bali December 07. We very much regret that there will not be a dialogue between Ministers of Finance and Banks CEOs under the Slovenian Presidency on this issue. Financing the double challenge of providing access to energy to 1,6 billion people without increasing emissions is very much what will be discussed in the next two years within the UN climate negotiations. Similarly, there are huge needs and opportunities in Europe in particular in sectors such as buildings and infrastructure to make them “energy efficient”. Financing and investment flows, from both the private and public sector, will play a central role in the design of a post-2012 agreement. By bringing together financial institutions, public authorities and other stakeholders on finance & eco-innovation, Europe has a chance to steer market forces towards a world-leading economy that is both competitive and green.
- **An alarming lack of financial flows towards eco innovation** 95 % of the eco-innovative projects are not eligible for VC and mezzanine finance, and are considered under-developed or too high risk for traditional debt financing. They are looking for funds between 100.000 and 1 million €, having an annual profit-earning capacity of less than 20%. More Synergies are needed to scale up The Competitiveness and Innovation Programme of the European Commission and its CIP Financial instruments (with involvement of the EIF) will not meet all the needs. *Based on the assumption of a full budget utilisation and of an expected leverage between 1:2-1:7 for venture capital investments, this would mean that only some EUR 1.3 billion could be mobilised from other sources for risk capital funds having eco-innovation in their investment policy Based on Commission experience in the financial instruments, a leverage in the range of 1 \$ invested by the public sector for 30-40 by the private sector can only be achieved by counter-guarantee instruments; for venture capital, leverage is typically between 1:2 (in case of 50% EC investment) and about 1:7 in case of 15% EC investment in a given venture capital fund.* This is why, as the R&D FUNDETEC (funding the development of environmental technologies) report underlines *Europe will be much more efficient if we can develop synergies between the relatively small public funding,*

having some leverage effect, and private funding. The FUNDETEC report has identified 15 ‘best practices’ which should be a source of inspiration to develop such leverage effect. The European Platform on Finance & Eco-Innovation is proposing to the Member States to address these issues, Several forms of incentives should so be reviewed.

Ladies and Gentlemen,

Europeans and particularly European Banks should not be so easily complacent ! If according to a recent CERES study which has evaluated 40 Banks, *‘European Banks are at the forefront of climate change into environmental policies, risk management and product development’* and if progress are made related to disclosure, emissions management, investment opportunities and emissions trading, there are still some two issues which are critical and are not addressed properly as far as the large majority of European banks are concerned :

- As noted by the CERES report a key test going forward is whether banks will continue financing business-as-usual carbon intensive development strategies ; It is also an issue for what concerns SRI. Socially responsible investment (SRI) and ethical funds are often failing to invest in companies that tackle climate change, according to a report by Holden & Partners. Peter Holden, a partner at the firm, said: *“The report shows that SRI and ethical funds have not kept pace with the public’s appetite for environmental solutions. Many are investing in mainstream ‘old economy’ companies whose contribution to solving environmental problems is questionable.”*
- Banks Statements at UN level will not be enough. The credibility of European Banks will depend in particular on their actions at EU level. Will Banks have the skills and interest for a multi-stakeholder approach at European and Regional levels? So far with extremely rare exception the response is no. Platforms on Finance & Eco-Innovation are needed because Public policy, private and public sector investment practices and technology-developer management skills are complementary and need to find new ways to work together at European and regional levels. Solutions to the gaps and barriers for financing eco-innovation must target all of these areas for there to be a significant shift from the current situation.

This is why the European platform welcomes networks and individual organizations/companies of all interested parties Banks (Public and Private) ; Governments and Governmental Agencies. ; Regions (the ECREIN network) ; Business Angels (the European Business Angels Association) ; Researchers (FUNDETEC) ; Industry (up-taking/deploying cleantech)

Europe need a “Financing Eco-Innovation integrated approach”. This “integrated approach” should link with two ETAP Forum proposals to trigger or to pursue the mobilisation of funding instruments in favour of eco-innovation: *all Member States should aim at setting an efficient, large scale green funding scheme within two years and increase the leverage of public funding for eco-innovation, for example by turning subsidies into loan guarantees or tax rebates.*

We are proposing to Interested Member States and Banks to explore - on the basis of recommendations made by the R&D Report “FUNDETEC” which will be debated in details on March 18th in Brussels - the optimal combination of mechanisms to:

- (i) Attract savings and finance projects with a **“neutral” or low-cost impact on public funds**
- (ii) **Help the European financial market to structure itself through two pillars:** a green saving bank account system/green funds developed at Member State level and a guarantee fund system
- (iii) **Mobilize private capital to finance far more than the 5% eco-innovative projects** that find dedicated financing today
- (iv) **Scale up private and public capital in energy efficiency, renewable energy and eco-innovation**
- (v) **Launch a pilot operation in the building sector.** They represent 40% of global CO₂ emissions. 450 million tonnes of CO₂ could be saved annually through practical energy saving measures. There is a huge need in all the EU 27 Member States to dramatically improve the existing building stock and build “green buildings”.

In conclusion, The banks statement on ‘Finance & Eco-Innovation’, underlines that designing a long-term solution to climate change is mainly a challenge of intelligent financial engineering. Public institutions will need the help of commercial-type funding on a very large scale. There is a high degree of interdependency and complexity in financing climate change and environmental technologies. A multi-stakeholder strategy is needed if Europe want to establish is lead on Finance, Climate Change & Eco-Innovation. A Challenge for the French Presidency ?