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Making finance serve climate objectives: civil society calls for a model shift

Ahead of the Paris COP21 meeting, heads of states are asking large banks and private investors to pay attention to climate objectives. The outcome of their calls is not certain because, after 20 years of deregulation and financialization, banks and investors are highly focussed on short-term profit considerations. As short-term returns in the real economy are often linked to fossil fuel use, the real challenge of this demand is not only about 'how much' but rather about 'which model' of finance to promote: public authorities must point the way towards a sustainable economy that imposes its values and needs on finance. This is a prerequisite for the financial sector to regain citizens' trust.

In our view, a structural approach to the task of financing climate objectives must include these five priorities:

1. **Increase public investment capacity:** history shows that the most significant innovations involve strong financial support from the State.[1] As a number of EU and US economists have noted,[2] the dogmatic restriction of public budgets is economically counter-productive in the current environment. It hampers innovations that are indispensable for energy transition.

2. **Put an end to fossil fuel subsidies:** the IMF has estimated that fossil fuel companies receive $5,300 billion per year in subsidies.[3] These should be redirected to supporting climate objectives.

3. **Call the financial sector to engage on climate objectives:** Over the past five years, the 25 largest French and international banks have invested from seven to nine times more in fossil fuels than in renewable. The 25 largest international banks supported fossil fuels with 847 billion euros vs. only 89 billion euros for renewable[4].

4. **Align the private sector with public interest via regulation:** Public authorities have several tools at their disposal to incentivize divestment from fossil fuels and boost "green" investments, some of which are already in use in other parts of the world.[5] Policy options include carbon taxes, credit guidelines, systematic transparency on banks' balance sheets and investment funds and calculation of their carbon risk and performance (Art. 173 of the French Energy Transition Law is a first step), "green" quantitative easing, etc.

5. **Promote pioneer financing models:** the best practice of bankers and investors who put public interest at the heart of their objectives should be extended within the traditional financial system. End-users and citizens have a role to play in this regard.

The civil society representatives listed below support such a model shift and will promote concrete proposals to this end. While the post-2007/2008 financial reforms focused mainly on financial stability, today's challenge of financing our response to climate risk is an opportunity truly to transform finance to serve society.

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[1] See for example the work of M.Mazzucato
[2] Amongst others, recently, Larry Summers
[3] IMF WP/15/105, "How Large Are Global Energy Subsidies?", Guardian "Fossil fuels subsidised by $10m a minute, says IMF", 18 May 2015
[4] « Banques françaises : quand le vert vire au noir », Novembre 2015, Fair Finance France, Oxfam France et les Amis de la Terre France.
[5] See for example: UNEP Inquiry, rapport Canfin-Grandjean (in French)

List of signatories

- Institut Veblen
- Finance Innovation Lab
- World Future Council
- Fondazione Culturale Responsabilità Etica
- Housing Europe
- Secours Catholique (Caritas France)
- Greenpeace International
- 350.org
- ShareAction
- Collectif Roosevelt
- Market Forces
- Oxfam France
- Banktrack
- Les Amis de la Terre France
- Fair Finance France
- Attac France
- Finance Watch