MARC BICHLER, LUXEMBOURG'S AMBASSADOR FOR CLIMATE CHANGE

NO SUSTAINABLE CLIMATE ACTION WITHOUT SUSTAINABLE CLIMATE FINANCE

IN DECEMBER, WORLD LEADERS CAME TOGETHER IN PARIS TO FINALISE A HISTORIC AGREEMENT TO CURB CARBON POLLUTION AND IMPROVE RESILIENCE IN THE FACE OF CLIMATE CHANGE. BUT DELIVERING ON THE NEW PARIS AGREEMENT REQUIRES A KEY ITEM: FINANCE.

"Successfully confronting climate change will require very important new financial flows."

The Cop21 Paris Agreement, adopted by 195 countries and the European Union, marks a turning point in tackling climate change. For the first time in history, all the world's nations reached a consensus to cut greenhouse gas emissions with a view to keeping global warming below 2 °C and to drive efforts to limit it to 1.5 °C.

"The Paris Agreement sends a strong signal that the poorest and most vulnerable countries will be supported, and that investors need to align portfolios for a low carbon and climate resilient development," says Marc Bichler, Luxembourg's Ambassador for Climate Change.

More than ever, transition from fossil fuel to renewable energies is becoming a new global reality. As of 2020, at least 100 billion USD a year will be mobilised from public and private sources to help developing countries mitigate the effects of climate change and adapt to already existing impacts of climate change.

The government's decision to dedicate 35 million EUR between 2014 and 2020 (5 million EUR per year) to climate mitigation and adaptation activities in developing countries, has set the tone of Luxembourg's commitment.

SCALING UP INVESTMENTS

Governments, investors and businesses now have to translate this agreement into actions.

"Over the next five years we must begin to unlock the investments needed to deliver on the promises all countries made this year on both climate and development. Successfully confronting climate change will require very important new financial flows", comments Marc Bichler.

Already now, the agreed 100 billion USD is considered to be underestimated.

"Full implementation of the unconditional pledges made by countries to reduce their greenhouse gas emissions would require cumulative investments of 13.5 trillion USD in low carbon technologies and energy efficiency until 2030", Bichler adds.

Climate Finance cannot flow from public budget sources alone, but needs the indispensable buy-in from institutional and private sector investors.

"The future of climate finance depends on its ability to leverage sufficient resources from capital markets. Funding is needed from a variety of sources, public and private, bilateral and multilateral, and the financial tools to access that funding will reach across the board from donations to investments and even loans", adds Anouk Agnes, Deputy Director General at the Association of the Luxembourg Fund Industry (ALFI).

CONNECTING INVESTORS EAGER TO JOIN THE FIGHT

Investment funds are one of the tools that allow the combination of public and private resources, connecting investors eager to participate in the fight against climate change with the various investment op-

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portunities that the climate challenge represent.

"The effect of COP21 is that more investors – both institutional and retail – are interested in investing in funds with a direct impact on the environment. There is, in parallel, an increasing pressure on the investment fund community to apply environmental criteria in their other, more mainstream, investment strategies", highlights Anouk Agnes.

Today, there are already a large number of investment funds in Luxembourg investing in the environmental sector. With a 35% market share, Luxembourg is the leading European domicile for funds with a responsible investment strategy, that is impact funds such as climate funds and more broadly invested traditional funds applying environmental, social and governance (ESG) screening techniques. In addition, 67% of global AuM in European impact funds are domiciled in Luxembourg.

"The ability to design a Luxembourg investment fund in such a way that its capital structure and the distribution of its income accommodates requests by public, private and institutional investors alike is extremely useful in the context of climate finance. Luxembourg's track-record in microfinance funds and the expertise acquired over the years in setting up structured investment funds proves to be very valuable. This success could be repeated in climate finance", adds Agnes.

In addition, the new 'Reserved Alternative Investment Fund' (RAIF), with its reduced time-to-market, is also likely to appeal to Alternative Investment Fund Managers looking to launch a specific climate finance product.

GREEN BONDS IN HIGH DEMAND

The 100 trillion USD global debt market, and green bonds in particular, are expected to become a dominant source of green capital. In this context, the Luxembourg Stock Exchange (LuxSE) intends to encourage new issuances and is committed to invest in promoting high quality standards specific to the asset class. Today, only a limited number of green bonds fully commit to all four pillars of the GBP (Green Bond Principles) that is use of proceeds, project eligibility, management of proceeds, reporting and third party assurance.

LuxSE recently hit a milestone on the path to mobilising investments with the listing of its 100th Green Bond. Driven by appetite among institutional, high net worth and retail investors, the global Green Bond market is set to raise somewhere between 50 and 80 billion USD this year. Luxembourg has already a 50% market share of global Green Bonds listings.

"LuxSE understands that exchanges increasingly play a role beyond connecting issuers and investors, which is to help capital markets bring social and economic benefits to the economy and society as a whole. Green Bonds are a good example of this direction," comments Robert Scharfe, CEO of the Luxembourg Stock Exchange (LuxSE).

The 250 million EUR new issue from the European Investment Bank (EIB), the world's largest issuer of Green Bonds, increased the size of the EIB's benchmark 2026 bond to a total of 1.5 billion.

The EIB, which has currently 95% of its bonds listed in Luxembourg, kick-started the market in 2007 with the listing of the first Green Bond on the Luxembourg Stock Exchange.

"The greening of the bond market is vital for the future of climate finance. We sell a lot of bonds because we need to refine everything on the capital markets and LuxSE was at the avant-garde when it came to green bonds", says EIB President Werner Hoyer.

MEETING TRANSPARENCY REQUIREMENTS

The credibility of climate finance is crucial for the effective involvement of capital markets in the delivery of climate policy

BY SCANNING THE QR CODE BELOW, WATCH HOW LUXEMBOURG IS PIONEERING CLIMATE FINANCE EFFORTS.

WHAT YOU NEED TO KNOW:

100 BILLION USD A YEAR

WILL BE MOBILISED TO HELP MITIGATION OF CLIMATE CHANGE BY 2020

13.5 TRILLION USD

CUMULATIVE INVESTMENTS NEEDED UNTIL 2030 TO ENSURE FULL IMPLEMENTATION OF THE PLEDGES MADE AT COP21

35 MILLION EUR

AMOUNT THAT THE LUXEMBOURG GOVERNMENT HAS COMMITTED TO DEDICATE FOR MITIGATION AND ADAPTATION ACTIVITIES IN DEVELOPING COUNTRIES BETWEEN 2014 AND 2020

50%

LUXEMBOURG'S MARKET SHARE OF GLOBAL GREEN BONDS LISTINGS

67%

OF GLOBAL AUM IN EUROPEAN IMPACT FUNDS ARE DOMICILED IN LUXEMBOURG

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goals, bringing transparency, accountability and compliance into the spotlight.

In this context, Green Bonds allow investors and rating agencies to engage in the assessment and improvement of climate finance. This process needs to be taken forward with the development of consistent and widely accepted standards for the classification, prioritisation and assessment of climate finance. Definitions of "green" are based on a complex and fragmented taxonomy that will need urgent harmonisation to ensure a safe and thriving market, where trust is based on transparency.

"We have a fundamental role of ensuring the highest transparency of green bonds and the alignment between disclosure and investors' expectations. In a non-regulated environment, we are committing to contribute to the further standardisation of green bond criteria via the endorsement of best practice for green bonds to be listed on our market", comments Robert Scharfe.

The need for transparency is also true for investment funds such as climate change funds, impact and ESG funds.

"Today, investment funds are putting more emphasis on extra-financial reporting and in communicating to their investors what impact the projects in their portfolio have achieved", comments Anouk Agnes.

QUALITY LABELLING

In Luxembourg, the fund labelling institution LuxFLAG, launched in 2006, contributes to reassure investors about the purpose of their investment. Labels are awarded to funds that meet specific criteria in the areas of microfinance, environment and ESG (Environment, Social, Governance).

The labelling agency is planning to launch a climate finance label by summer.

"Investors recognise the need to shift their focus, moving forward. This label will put a set of quality standards on funds that have a climate finance strategy, mitigating climate risks and measuring their impact. We will be the first in Europe, if not the first in the world. Each of our labels is awarded on factual results. For the ESG label, we require applicants investment funds to screen 100% of their portfolio, we look at its investment and its outcome on the ground," says Annemarie Arens, General Manager of LuxFLAG.

The agility of the Luxembourg's financial centre, including the alignment of institutions and industry participants and the ability to attract skilled staff and engage in emerging business sectors, will certainly translate into a valuable climate finance toolkit as the market matures.

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