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EXECUTIVE SUMMARY
FRENCH **STRATEGY** FOR **GREEN FINANCE**

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State of Play

The financial sector has started to take action on climate change, with the aim of making financial flows consistent with the Paris Agreement's climate goals. **On a global scale, there have been three recent dynamics**:

Voluntary commitments

- In the run-up to COP21, a number of coalitions pooled the commitments of **investors and asset managers**. Today, those who took part are amongst the best performers with respect to climate.[1] Investors are now starting a new round of collaborative engagement with companies in order to drive them towards pathways compatible with the Paris Agreement.
- Some **banks** have taken commitments on an individual basis, mostly to limit or end their funding to the coal sector. They were partly responsible for the 2016 downtrend in fresh financing for this sector.
- **Insurance companies** have mainly made commitments as investors. However, their contribution to resilience and the prevention of damage relating to increasing climate risks is only beginning to emerge.
- The majority of **development banks** have committed to increase their climate-related activities by 2020. With an average of 19% of financing targeting the climate in 2016, they are still short of their targets although results vary from bank to bank.

Public impetus

- The G20's acknowledgment, in 2015, of the **risks** created for the financial system and its stakeholders by climate change led to efforts to ensure greater **disclosure** from businesses and financial players. The recommendations of the *Task Force on Climate-related Financial Disclosures* (TCFD) set up by the *Financial Stability Board* (FSB), which were submitted in 2017, are both ambitious and challenging. They request to outline strategies that are consistent with long-term emission-reduction objectives.[2] The current challenge is both to develop reporting methodologies and metrics on this new basis, and to ensure their rollout, either by voluntary commitments or through regulations.

[1] According to the ranking of the Asset Owners Disclosure Project (AODP).

[2] The TCFD recommends that financial and non-financial stakeholders make climate-related financial disclosures concerning four areas: governance, strategy, risk management, and the metrics and targets used, and draw on scenarios for the transition to a lower-carbon economy.

- In 2016, the G20 also started to work on **aligning financial systems with the objective of a transition to a low-carbon economy** through different drivers of financial policy and market practices. The European Commission carried on this work with the High-Level Expert Group (HLEG) on Sustainable Finance.[3] At national level, a number of countries have made notable progress. These include **China** through its planned economy and **France** by using flexible and experimental legislation.
- The **supervisory authorities of a number of Member States of the European Union** (France, the Netherlands, the United Kingdom and Sweden) have started work to take into account climate-related risks.

Market practices

Products and services directly intended to fund green assets are now being developed.

The **green bond** market has grown exponentially since 2011 and has three issues to address:

- structuring (taxonomy, principles and standards), to ensure its integrity with lower costs,
- growth (volume, liquidity, sectorial and geographic diversification),
- connection with the bank credit market by securitisation.

The **number of green investment funds is on the rise but the scale of the trend cannot yet be measured.**

Although there is strong demand for these products from institutional investors, few individual savers currently subscribe for them. A tailored offering needs to be built up.

Suppliers of services and information such as ratings, analyses and indexes, are developing specialised instruments but factoring in climate-related issues has not yet been mainstreamed. This will very probably require broad-based training for each occupation in the financial sector.

France has a leading position with regard to green finance.

Widespread commitments from financial stakeholders and tangible outcomes

- Major French institutional investors, including insurance companies and asset managers, took part in various climate finance coalitions. Despite their limited number, French stakeholders are among the highest ranked[4] worldwide. *Caisse des Dépôts* has launched its long-term strategy: the “2°C roadmap”.
- In 2015, all the leading French banks made commitments to limit their financing for fossil fuels, in particular coal.
- In 2016, the French Development Agency’s (AFD) climate financing accounted for 52% of its activity. This figure was slightly above its 50% commitment for 2020 and far more than the average figure for multilateral development banks (19%). In 2017, AFD has undertaken to align all its activities with the Paris Agreement, meaning that it is leading the development bank pack in this field.

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[3] Led by the DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA) of the European Commission.

[4] AODP index.

The French authorities are taking a multifaceted approach, which is cutting edge as regards:

- The reporting obligation on climate contribution binding on the majority of economic and financial stakeholders (Article 173 of the Energy Transition for Green Growth Act[5] of 17 August 2015).
- The issuance of sovereign green bonds (first issue in January 2017, maturing in 2035, for €7bn).
- Taking account of climate change-related risks by the banking sector (pioneer work of *Banque de France* and the Prudential Supervision and Resolution Authority (ACPR)).
- The introduction of a green labelling system: TEEC[6] for investment funds.

French financial players hold large market shares in products and services such as green bonds, and have an innovative green fund offering.

The purpose of the introduction, in 2017, of the "**Finance for Tomorrow**" market initiative was to leverage and underpin France's leading position in green and sustainable finance, which has become subject to competition between financial centres.

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Green finance has expanded rapidly since 2015 but much remains to be done to make capital flows consistent with the goals of the Paris Agreement.

France can continue to play a pioneering role to promote the energy and ecological transition, and to support Paris's role as a financial centre.

The task force is putting forward recommendations along four axes for a French strategy to foster green finance.

[5] Loi de Transition Energétique pour la Croissance verte.

[6] Energy and Ecological Transition for the Climate.

Including climate-related risks in the finance system: consolidating france's lead and promoting our position in international talks.

France's lead in the field of green finance is based on its international commitments, its ground-breaking regulations and its innovative market stakeholders who are addressing climate issues.

France can consolidate its lead in five key areas and use it to promote bold objectives on the European and international scene, upstream of any decision that may be taken at EU level following the recommendations of the High-Level Expert Group on Sustainable Finance (HLEG).

1. At the end of the first year of application of Article 173-VI of the Energy Transition and Green Growth Act (LTECV), French regulations covering the requirements for transparency on the climate risk should be:

- specified, in terms of content, to comply with the recommendations of the TCFD,
- consequently extended to banks, and to the *Banque de France* in respect of its assets that are not related to monetary policy,
- also applied to management strategies and to the indexes used for passive management,
- promoted worldwide by French financial stakeholders' participation in international work to roll out the TCFD's recommendations.

2. Building a shared taxonomy (identification and classification) of green projects and activities is one of the cornerstones for the expansion of green finance. If it is drawn up by a European public body, it would legitimize green financing decisions, particularly for loans, pave the way for their traceability and potentially provide the basis for targeted public incentives.

To hurry along the process, France could back the HLEG's proposal to ask the European Investment Bank (EIB) to establish this taxonomy within an announced schedule and by arranging for a consultation with experts from Member States. France could have an active role in this work and pass on the experience gained from drawing up the taxonomy used for the TEEC label. As it would be acting together with other European countries, its voice would carry even more weight.

3. France must determine its contribution and presence in international green finance standardisation processes to highlight its instruments and build up from its experience. It can draw on its methodological lead and play a part in international work, especially on four over-arching topics: the methods for measuring a dynamic alignment with a 2°C trajectory for businesses and investors – based on ADEME's[7] work –, identification of green banking assets, conducting climate stress tests on the balance sheets of banks and insurance companies, and the structuring and issuance standards for sovereign green bonds.

4. To channel the savings of French households towards the ecological and energy transition, savers must be better informed of how climate issues are taken into account in the management of their savings. Savers must be able to:

- express their investment preferences,
- choose savings products compatible with the climate change reality (for employee savings plans and unit-linked life insurance products).

To support this trend, **labelling of green financial products** should be extended, especially for loans and investment vehicles targeted to individuals. Visibility will improve thanks to a clearer coordination between France's four existing labels (TEEC, ISR, ACT and FPCV[8]), combined with a specific promotional budget. Consultation should be undertaken with other European countries to broaden the scope of these labels and to promote a European label, provided that it uses stringent criteria as similar as possible to those of the TEEC label.

To avoid confusion surrounding this labelling policy, we believe it would be relevant to reform the socially responsible and sustainable development savings account[9] (LDDS), whose outstandings cannot actually be allocated by banks.

Furthermore, the information now available at the *Caisse des Dépôts* and to insurers should be used to carry out a communication campaign targeting the general public, explaining how climate issues are taken into account in managing two of the French public's favourite savings products: the regulated savings accounts (*Livret A* and LDDS)[10] and life insurance.

Lastly, the public's appetite for complementary savings products should be encouraged, via crowdfunding platforms specialised in renewable energies. Following regulatory reform, these platforms could address other transition-related issues, such as the rollout of electric vehicle charging stations.

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[7] In conjunction with the Carbon Disclosure Project, ADEME (Environment and Energy Management Agency) is developing the Assessing Low Carbon Transition (ACT) Initiative to develop a sector-by-sector methodology for gauging businesses' alignment with 2°C objectives.

[8] Respectively: Energy and Ecological Transition for the Climate, Socially Responsible Investment, Assessing Low-Carbon Transition, and Crowdfunding for Green Growth.

[9] *Livret de Développement Durable et Solidaire*.

[10] Members of the general public could be informed of how their savings are used in a way consistent with the climate goals. Such communication could be based on the portion of *Livret A* and LDDS outstandings centralised at *Caisse des Dépôts* (66% of total outstandings at present; 60% under the 2018 budget bill).

5. France should accelerate supervisors' work under way in Europe to manage climate risks.

Thanks to its first tests of banks' climate "sensitivity", France's supervisor has a lead in its grasp of these issues. This work should be taken further, in keeping with the European trend.

More specifically, the *Banque de France* should continue – if possible as part of an alliance with other supervisors – the work begun in collaboration with the French Treasury and the Prudential Supervision and Resolution Authority (ACPR) to assess banking risks related to climate change,[11] and extend this work to the insurance sector. These efforts should allow stress tests to be carried out on banks by 2019 by developing scenario-based methodology.

The work begun on Pillar 2 of the Basel III framework, which covers the procedure for monitoring capital management and evaluating banks' risk profile by the supervisor, looks very promising and should continue.

The task force is unable to give a conclusive opinion regarding the debate about whether the minimal capital requirements in Pillar 1 should be adjusted to support green activities and/or penalise brown activities. Nevertheless, in our view, this debate is not yet over and one of the prerequisites is to adopt a broad taxonomy for green assets.

More generally, France must focus more attention on the HLEG's work and promote ambitious targets for Europe.

In particular, France should support sustainability-related provisions derived from this work and included in the European Supervisory Authorities package of proposals before the Economic and Financial Affairs Council (Ecofin) and the European Parliament. However, we do not consider the proposal of creating a new "Sustainable Infrastructure Europe" structure to be relevant.

[11] Evaluating Climate Change Risks in the Banking Sector, a report required under Article 173-V of the Energy Transition and Green Growth Act No. 2015-992 of 17 August 2015.

Financing the transition in France: Using resources strategically

France will have to invest an additional €300 billion between 2015 and 2030 to achieve the ecological and energy transition goals that it has set.[12] Most of these investments will have to come from the private sector.

Yet to date, private-sector investment is insufficient. This is notably due to the low carbon and energy prices, along with a level of risk deemed too high (risks related to new technologies, new markets, etc.). The French government can provide incentives by using the different sources of leverage at its disposal (regulations, taxation, organising stakeholders, public funding, etc.). This report focuses on financing. It emphasises the kinds of public instruments that can direct private investment flows towards low-carbon transition projects. We recommend a tailored approach that takes into account the specific features of the various sectors and stakeholders.

1. Define and manage the "business plan" for the ecological and energy transition. To be able to measure the necessary financial reallocation efforts, the annual financial trends must be monitored and compared with investment needs. The existing forward-looking information, derived from the National Low-Carbon Strategy (SNBC), is qualitative but lacks financial data.

The SNBC, currently being revised, should be supplemented with an estimate of investment needs per sector, including an indicative range of public and private funding. This tool would be adjustable based on the public policies actually implemented (in terms of taxation, regulations, etc.). It would provide a basis for discussions about the public policies and public funding required to maximise private funding.

By using the annual overview of climate funding in France to monitor financial flows, gaps could be measured. This would also help inform public decision-making. Drafting and steering the "business plan" portion of the SNBC should involve both the General Commission for Investment (CGI) and *France Stratégie*, as well as businesses and financial stakeholders. This business plan should be placed under the joint responsibility of the General Delegation for Sustainable Development (CGDD) and the Directorate General of the Treasury, or under the responsibility of the General Commission for Investment with support from the other two aforementioned government departments.

2. Bring public investments into line with a 2°C trajectory. Achieving the goals in the Paris Agreement depends strongly on public investment choices. These can accelerate the transition or, conversely, increase our "path dependency". Therefore, the task force recommends making sure that the investments carried out by *Caisse des Dépôts*, Bpifrance and the French Development Agency (AFD, for overseas communities), as well as by the State, are in line with a "2°C trajectory". In any case, such investments must not be in contradiction with this goal.

The French government could apply this to the Great Investment Plan (GPI), ensuring its alignment with a "2°C trajectory", or even to the future French innovation fund. The ecological and energy transition is one of the GPI's priorities, and an *ad hoc* governance structure will be set up to monitor investment performance. It would be relevant to measure

[12] ADEME, La lettre stratégie, no. 49, June 2016 (in French). Cumulative investments, excluding newbuild construction, required to implement the National Low-Carbon Strategy. ThreeME model simulations.

the climate impact of projects and to make this one of the investment selection criteria and one of the performance metrics.

Furthermore, the government should have state-owned enterprises adopt a "decarbonisation" strategy that is consistent with a 2°C pathway, and should assist these companies in the necessary actions and investments. The Government as Shareholder's doctrine should be modified to include a reference to the *sustainable* growth of companies. In addition, the climate commitment should be a priority for the roadmap on Social and Environmental Responsibility that the Government Shareholding Agency (APE) is currently working on.

Lastly, the commitment to "greening" investment budgets must be conveyed at European level: the investments laid out in the 2021-2027 EU budget cycle should be aligned with European climate goals. In discussions about a future eurozone budget, France should support the consistency of its investment portion with a 2°C pathway.

3. Restructure public support schemes to maximise their impact on private funding.

We believe that three measures are necessary:

- **Redirect a portion of Bpifrance's funds from mature renewable energy development to other sectors.** Credit financing for renewable energy projects has represented around 60% of Bpifrance's green investments since 2013. The task force believes that private funding can now take over from public funds, which should be redirected towards loans for less mature renewable energies and other greentechs.
- **Consolidate and add to public incentive schemes for equity investment in non-mature renewable energies and greentech, in the "growth" segment.** These schemes, implemented as part of the Invest for the Future Programme (PIA), have been recognised by financial stakeholders as relevant and comprehensive, apart from the late venture financing segment,[13] which is poorly covered by private funds.
- Incentives should be set aside and targeted to this segment to foster the growth of private funds and respond to this market failure. Also, the seed capital segment must have sufficient subsidies to avoid drying up new business creations.
- Moreover, emphasis must be placed on **improving existing schemes at European level**. On the one hand, the performance metrics set for European public funds (managed by the EIB Group) should prioritise impact and focus less on yield. On the other, France should carefully monitor the design of the new generation of European funds, to make sure that their rules will be adapted to the needs of the target businesses. This is especially true for the future Innovation Fund proposed by the European Commission.

[13] This need is notably due to the success of the National Seed Capital Fund launched in 2010.

4. Make clear that energy efficiency retrofitting for public buildings is a matter of priority. The task force recommends channelling public investment towards deep energy retrofits as part of ongoing building maintenance cycles, and expanding the use of energy performance contracts (EPCs) – albeit in a carefully controlled manner – to boost private-sector investment in public building renovation. We suggest running an EPC pilot scheme, focusing on renovation works that can be profitable over periods of 5-7 years. Such a scheme could make use of the September 2017 Eurostat guidance note clarifying which types of EPCs are eligible for off-government balance sheet recording.[14]

There was also unanimous agreement about the need to improve public project management. This could be done by creating a national supporting body and regional units charged with drafting, monitoring and harmonising contracts. The State could also pay for preliminary studies, potentially by securing grants from the European Local Energy Assistance (ELENA) programme.

5. Encourage one-stop shop service points and introduce regulatory and fiscal instruments, to promote housing energy retrofitting.

The government cannot hope to step up the pace of private domestic energy retrofitting through financial measures alone. Energy efficiency-linked tax incentives would likely be the most effective way to encourage home-owners to carry out renovation work – and the least expensive option for the public purse.

France is leading the way in Europe on "one-stop shop" initiatives, such as regional third-party financing companies. Initial schemes have delivered promising results. This type of turnkey solutions for homeowners should be encouraged, while at the same time partnering with banks to finance loans.

In our view, there is no value in extending the personal interest-free energy-efficiency loan (*éco-PTZ individuel*) scheme beyond 2018 because uptake has been limited. Rather than introduce new financial instruments, the government's efforts to encourage banks to lend to the sector should focus on getting two existing financial instruments for low-income households up and running: the Energy Renovation Guarantee Fund (*Fonds de garantie rénovation énergétique*, launched in 2015) and the "Habiter Mieux" interest-free energy-efficiency loan scheme (introduced in 2016). France should also encourage the Energy efficient Mortgages Action Plan (EeMAP) initiative, for two reasons: first, the initiative would bring in preferential rates for people choosing to buy an energy-efficient property or carry out retrofit work, and second, it would give banks a clearer picture of the risks associated with energy efficiency loans.

6. Encourage businesses to invest more in energy efficiency. This issue has different implications for businesses in the service and industrial sectors. For the tertiary sector, the most prominent measure is the reinforcement of the French decree of 9 May 2017 -suspended by the *Conseil d'Etat* for reasons linked to the implementation deadline - which requires businesses to meet certain energy efficiency targets and carry out retrofit work. In the industrial sector, where the potential for energy efficiency savings over 5-7 years is substantial, efforts should focus on sparking demand from businesses. This could be achieved by placing the ecological and energy transition high on the agenda across industrial policy, including on innovation and the digital transition.

[14] Eurostat, Guidance note on the recording of Energy Performance Contracts in government accounts, September 19, 2017.

7. Encourage the private sector to finance electric vehicle charging stations. It would seem feasible to use private-sector investment to accelerate the deployment of charging stations, both in towns and cities and on intercity roads. This, in turn, would allow the government to cut its subsidies to town and city councils for this purpose. It is worth discussing how to step up the pace of deployment with local government entities (as the main tendering authorities) and with the private sector (including finance providers).

Financing the transition in the developing world

Developing countries will need to transition to low-carbon economies if the world is to achieve the United Nations' 17 Sustainable Development Goals (SDGs) – including keeping the global temperature rise below 2°C. In this report, we look at how France can use its financial leverage to finance low-carbon development. Recognising that there is no one-size-fits-all model that works in each and every country, we will provide strategic guidelines that can be translated into region- and sector-specific policy.

The task force has identified three key proposals, along with cross-cutting actions of technical assistance and policy dialogue.

1. Ensure that finance from public development banks and United Nations funds aligns with the Paris Agreement. Multilateral and bilateral development banks have pledged to scale up climate-related finance by 2020, albeit to differing degrees – the European Bank for Reconstruction and Development has vowed to dedicate 40% of its investments to climate finance, while the World Bank Group has set a less ambitious target of 28%. The 2016 figures show that more effort is needed to hit these goals. The targets could be pushed higher post-2020, especially for those banks with more modest objectives.

In their non-climate-related lending activities (which amount to 80% of total financing),[15] multilateral development banks must also be careful to avoid locking countries in a development path towards a carbon-intensive economy. France must encourage the French Development Agency (AFD) to adopt a **strategy that is fully aligned with the Paris Agreement**. The French government must also make the case for a similar approach at the Boards of multilateral development banks, as well as in the UN funds. More work is needed on what "full alignment" would entail, and AFD could work with other institutions to reach a common – and **highly ambitious – definition**. The ultimate aim is to avoid any investment likely to place a country on a medium-term development path that is inconsistent with the 2°C target.

Public banks could also be encouraged to use impact criteria (such as avoided emissions) to inform financing decisions.

[15] Total financing amounted to $140 billion in 2016, of which $27 billion climate-related financing and $113 billion non-climate-related financing.

2. Encourage development agencies and banks to turn the leverage effect on private finance (from the developed and developing worlds) into a strategic objective. Loans and grants are the mainstay of development organisations' intervention models. At the same time, these organisations have developed new instruments to reduce private-sector risks and costs. But because these risk mitigation instruments are often offered to mature companies and low-risk regions, they achieve little in the way of additionality.

International financial institutions therefore need to channel more funds towards encouraging the private sector to invest in projects with a positive climate impact but that are deemed too risky or unprofitable. Wherever possible, public-private initiatives with a high leverage should be encouraged.

We therefore recommend that **France urges every development bank in which it holds a stake to set objectives to increase its financing of riskier public and private low-carbon projects**, and to **agree on common principles to be applied by all development banks**. The Green Climate Fund (GCF) can make resources available to enable banks to take more risks.

AFD could retain its leadership role by testing and implementing new approaches. **The French government could launch a five-year €250 million climate "fund",**[16] enabling AFD to broaden its palette of high-impact instruments along two priorities: financing riskier climate projects than its current rules allow (including projects denominated in local currencies), and expanding market-based financing for green projects. Such a fund would be aligned with the government's policy of scaling up official development assistance, as announced by the President of the Republic.

More generally, AFD will benefit from working with other development agencies on these new products, and from playing an active role in global efforts to support implementation of Nationally Determined Contributions (NDCs) through public-private partnership models (such as Climate Lab and the World Bank's new Invest4Climate initiative). In addition, AFD will be well placed to liaise with Paris's financial services industry.

Looking beyond the French climate fund, the Green Climate Fund and the forthcoming European Fund for Sustainable Development (EFSD, the centrepiece of the EU External Investment Plan) offer useful opportunities, to increase the capacity of AFD to finance riskier climate projects – although these funds are not sufficient on their own. France must work to ensure that all windows of the EFSD are open to bilateral financial institutions[17] (and not only to the European Investment Bank, as for the Juncker Investment Plan) and that the pricing of the guarantees is competitive. Moreover, by developing new instruments, thanks in particular to the new French climate fund that we recommend, AFD will be showcasing its own capability and expertise and will be better placed to secure funding from multilateral institutions. The fund will also ensure that France retains independence over its priority countries and regions.

AFD could also look to build its intervention capacity by focusing on the riskiest part of the project life cycle, for example by refinancing its long-term loans once the higher-risk early stages of the projects are over.

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[16] Along similar management arrangements as Bpifrance-managed funds under the "Invest for the Future" programme (PIA), or the Dutch government's Micro and Small Enterprise Fund (MASSIF).

[17] Once they have passed the Pillar Assessment for entities entrusted with EU budget implementation under the indirect management model.

The **forthcoming €600 million STOA infrastructure fund** – a joint initiative of AFD and *Caisse des Dépôts* – will need to be clearly aligned with the Paris Agreement. We also recommend allowing the fund to invest in private funds so as to achieve a higher leverage on private finance.

3. Funding cities directly / Attracting private-sector finance to agriculture and forestry

Local authorities must have easier access to public funding, since they stand at the forefront of practical climate action. Yet, unlike AFD, a number of multilateral banks, starting with the World Bank, are not allowed to provide non-sovereign financing to public counterparties, which has the effect of limiting the latter's ability to take action on the climate. In addition, the lack of direct public funding makes it more difficult for local authorities to attract private funding for low-carbon urban infrastructure (which may require co-financing or guarantees). We therefore recommend increasing direct public funding for local authorities by supporting the opening of non-sovereign funding windows by the World Bank, the African Development Bank and the Asian Development Bank. *As a second step, should this option prove impossible to put into practice, the opportunity of setting up a multilateral institution to fund sustainable development of cities in developing countries might be studied.*[18]

Private investors must be encouraged to provide more funding for the agro-ecological transition and ecosystem carbon storage. Global farming and forestry models must evolve quickly to meet food-supply, climate and biodiversity challenges all at the same time.

Private finance is still under-represented in this world of small-scale projects often considered too complex and risky for only a limited return.

To attract private finance to sustainable agricultural and forestry development, we recommend **supporting a reform of the financial model of the United Nations International Fund for Agricultural Development (IFAD)** so that it can raise capital on the markets, provide guarantees and invest in climate change funds, under its mandate to support poor farmers.

The Land Degradation Neutrality Fund, originating in an initiative of the United Nations Convention to Combat Desertification and managed by Mirova, is of particular interest. Following the EIB, the AFD has decided to contribute to it. Ideally the *Caisse des Dépôts* should follow suit. Lastly, we recommend setting up an "alliance for rural development funding" consistent with the Paris Agreement, bringing together public development banks and voluntary private banking and non-banking investors. Such an alliance would improve the common understanding of funding mechanisms for these activities and increase the private resources available. It would nicely complement the 4 per 1000 initiative[19] sponsored by France.

4. Lastly, technical assistance measures will be needed to support the structuring of local financial ecosystems and prepare projects for implementing nationally determined contributions (NDCs) in order to supply the pipeline of projects for financing.

The AFD also has a role to play in informing and influencing French financial actors with regard to the financial implications of NDCs.

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[18] *Proposal made by Sylvie Lemmet.*

[19] This initiative promotes a scientific approach to soil carbon capture.

Consolidating French leadership in green finance

The Paris financial centre benefits from a unique combination that should enable it to become the key financial centre for green and sustainable finance. Political determination has been translated into pioneering regulations (e.g. Article 173 of the Energy Transition for Green Growth Act) and reaffirmed by the issuance of a sovereign green bond. Institutional investors and public banks are making climate a central axis of their strategies. A number of global private financial actors, historically involved in the socially responsible investment movement, are stepping up their climate strategy. Lastly, Paris has top-ranking intellectual resources owing to the presence of academic research centres, think tanks and specialist consulting firms.

1. Green finance must be the criterion that differentiates Paris's financial centre and be placed at the heart of its 2020 strategy. This approach must be a key element of its competitiveness and attractiveness strategy. On the one hand, competition between financial centres for green finance has already begun, and Paris could become the global benchmark. On the other, greening of the hub will have a multiplier effect enabling it to attract the skills and capital of the future.

To this end it would be advisable to alter the composition of the Paris Financial Centre 2020 Committee – the structure in charge of discussions on financing the economy, change in savings patterns and the financial instruments needed for economic growth – by including representatives from Finance For Tomorrow and qualified individuals. Two other organisations of Paris's financial centre, the Institut Louis Bachelier and the Finance Innovation cluster, should also adapt their governance to reflect green finance as a higher priority.

2. The greening of finance has to be managed. "Green finance" is a process that is both necessary for a successful low-carbon transition and beneficial to France's competitiveness. Steering of this process must be based on a proper understanding of its complexity on the government's part and on new forms of consultation with financial stakeholders. More generally, the task force also recommends engaging in various types of international cooperation to make progress on all these subjects.

Development of a common approach to the subject by the ministries concerned (Ministry of Economy and Finance and Ministry of Environment) would render public action more effective and be facilitated by routine joint presence in working groups on green finance.

A joint steering body is needed to ensure that ministries' positions are consistent, to organise dialogue with financial stakeholders and to steer policy relating to economic diplomacy and influence. It could lead the action required to ensure consistency of labelling, for example. There are various options for organising such steering, which must be based on a common roadmap: a simple steering committee at ministerial level or else more institutional options such as an interministerial committee, a public interest grouping (on the pattern of the interministerial public interest grouping for digital technology) or a Secretary of State reporting jointly to the Ministry for the Economy and Finance and the Ministry for the Ecological and Inclusive Transition.

Finance for Tomorrow must become the place of coordination for the Paris financial centre. The launch in 2017 of the Finance for Tomorrow (F4T) initiative bears witness to strong commitment from financial stakeholders, with support and guidance from government departments. In view of the early stages of this initiative, hosted by Paris Europlace, it is recommended that it should become the main body for consultation on green finance between government and public and private financial stakeholders. The task force recommends giving priority to meetings of experts on financial market innovation, consultations on the transition "business plan", and coordination between public and private sectors to ensure that France is present in international bodies in order to increase its influence.

Lastly, the *Climate Finance Day* should become an annual meeting for green finance, held in Paris and organised jointly by the French government and Finance For Tomorrow.

3. Accelerating the greening of Paris's financial centre depends on increasing the number of private-sector initiatives and innovations. The Paris financial centre has been able to stand out on account of its creativeness, particularly in the field of green bonds. It must nevertheless consolidate its leadership by continuing to innovate. The task force recommends using the benchmarking of financial centres in terms of green finance – currently being launched – as a tool for monitoring progress in greening of the Paris financial centre.

The greening of the financial centre also entails greening Euronext, the company that manages the Paris stock exchange. Its strategy should evolve towards disseminating information on climate risk in the market and certifying information on environmental subjects.

Lastly, the task force draws attention to the special role of financial innovation and dedicated vehicles for climate and environmental issues. While most innovations have yet to be developed, the task force has found the following examples to be relevant: a fully 2°-compatible listed equity fund, a securitisation fund for car loans (electric and hybrid vehicles) and closer cooperation with crowdfunded projects. Some of these innovations could be facilitated by initial involvement and seed money of major French institutional investors, starting with *Caisse des Dépôts*.

4. The research and training ecosystem must evolve and internationalise. Development of green finance and seizure of climate and environmental issues by financial operators hinge on link-ups with public and private research work. The Paris financial centre possesses a dynamic ecosystem of think tanks and consulting firms specialising in green finance, supported by the public sector, which must develop its private partnerships and continue with its internationalisation. French academic research in finance which has an outstanding reputation, must tackle environmental and climate subjects.

As in the case of academic research, initial and continued training in the field of finance is addressing environmental and climate issues only on the fringes. The task force recommends establishing courses on sustainable finance in universities and *grandes écoles* and including them in the mainstream curriculum.