

# **Sustainable Finance**

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# **Sustainable Finance Lab**

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- Sustainable Finance Lab in the Netherlands**
- Founded by former CEOs of Rabobank and Triodos Bank and a group of leading professors and policy experts in 2010**
- Sustainable finance having 2 meanings:**
  - stable financial system**
  - financial system with a central role to finance the transition (climate, solar and wind energy, circular economy)**



# ESFRC

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- ❑ **European Shadow Financial Regulatory Committee (ESFRC) founded in 1998 following the example of the US SFRC**
- ❑ **Part of a global network including SFRCs in Asia and Latin America**
- ❑ **Issuing policy recommendations on regulation and supervision of financial institutions and markets with academic research as starting point**

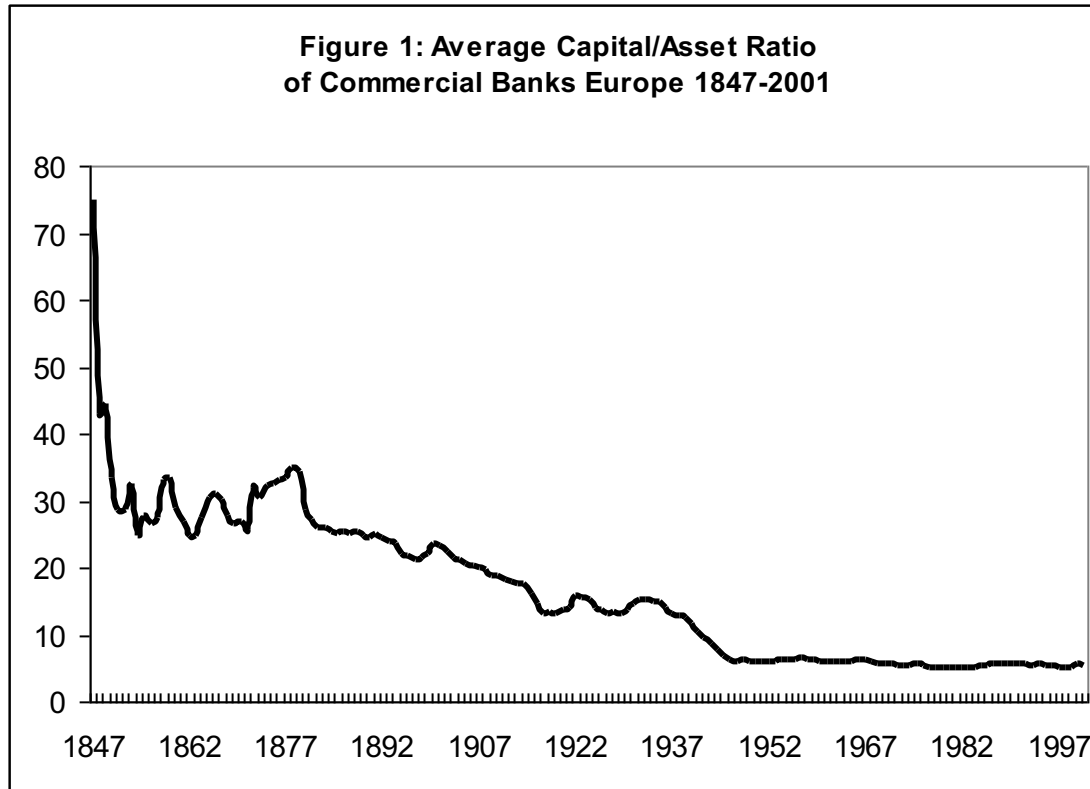


# ESG

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- ❑ **Long-term investment horizon**
- ❑ **International diversification**
- ❑ **Sustainable investments: net zero in 2050**
- ❑ **Dialogues with companies on ESG issues**
  
- ❑ **But realization of ESG goals may be hindered seriously by the fragility of the global financial system**

# Banking Fragility



Source: Benink & Benston (2005)

# Historically High Debt Ratios

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- ❑ **Notwithstanding the rise of bank capital ratios after the Global Financial Crisis they are still historically low**
- ❑ **Banks need to strengthen their capital buffers and limit the part of profits which are paid out as dividends and share buybacks**
- ❑ **Global debt ratios (debt of companies, households and governments in all countries divided by world GDP) has risen from 260% in 2008 to 350% in 2022**
- ❑ **Increasing fragilities in a world of rapidly rising interest rates (IMF, April 2023)**
- ❑ **“A Word of Debt. A Growing Burden to Global Prosperity” (UN, July 2023)**

# **Eurozone Crisis (2010-2012)**

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- Rescue packages for Greece, Ireland and Portugal**
- June 29, 2012: creation of permanent European rescue fund, the European Stability Mechanism (ESM), as successor of the temporary rescue fund, the European Financial Stability Facility (EFSF)**
- Limited size of ESM: only 500bn**
- Lack of political commitment to the euro as a single currency**
- Interest rates of Spain and Italy peaked once again in July 2012**
- July 26, 2012: Draghi states “whatever it takes to preserve the euro”**

# **Eurozone: Solutions since 2012**

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- Stronger enforcement of structural economic reforms, notably in France and Italy**
- Urgent action needed to prevent the euro zone from falling into a deflationary spiral**
- September 2012: Roadmap towards a European Banking Union**
- January 2015: ECB announces QE of 1,140bn euros**
- March 2020: ECB starts Pandemic Emergency Purchase Programme (PEP) currently amounting to 1,850bn euros**
- July 2020: European Council agrees on a pan-European corona crisis rescue fund (“Next Generation EU”) of 750bn euros linked to economic reforms**





# **New Rules for Economic Governance**

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- April 2023: the European Commission presented new proposals to reform the EU's economic governance rules**
- Goal: make economic governance simpler, improve national ownership, place a greater emphasis on the medium term (plans for 4 to 7 years) and strengthen enforcement**
- Integrate fiscal discipline, economic reforms and investment objectives (towards a green, digital, inclusive and resilient economy)**
- Report by Mario Draghi on a new European investment agenda (expected in Summer 2024)**
- France: parliamentary elections in Summer 2024**

# Pan-European Investment Funds

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- **The proposals by the European Commission focus on national plans**
- **A case can be made to finance European *public* goods through new pan-European investment funds:**
  - **solar energy in southern Europe and northern Africa**
  - **wind energy in Ukraine**
  - **transportation of sustainable electrical energy by transmission networks and hydrogen**
  - **economic competitiveness and digitalization**
  - **defense**
- **Co-financing of these investments by sovereign wealth funds and private investors**