Smarter investment in high-polluting firms is key to achieving 2050 emissions targets

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Investment in companies which do not fit existing “green” definitions is needed for a greener global economy according to new report released today.

The new report from Imperial College Business School highlights the shortfall of investment needed to meet global emissions targets. The report cites estimates of annual global climate finance totalling approximately $800 billion, against a future requirement as much as $3.5 trillion.

To help fill the gap, the report calls for “transition finance” to play a more prominent role. Transition finance is targeted at companies which do not fit in existing guidelines, but do have the potential to significantly reduce their carbon emissions with the right processes, infrastructure, and technology.

The authors highlight the lack of sufficient green investments readily available to investors and urge the financial community, industry, and government to work together to channel capital into high-polluting companies that commit to cleaner operations.

Professor Charles Donovan, Executive Director of the Centre for Climate Finance and Investment, said, “Green finance is still playing at the edges of mainstream capital markets. There’s currently too much segmentation and lack of uniformity. This report highlights why the criteria for tracking the progress of large industrial firms towards decarbonization is needed to move green finance into big leagues.”

The authors contend that a narrow focus solely on green projects ignores the vital role many industries will continue to play in the economy for many years to come. The report stresses that providing them with the incentives, guidelines, technical expertise to improve their emissions-reduction initiatives is a vital piece of the puzzle which is currently missing. Without it, the Paris Agreement goals will appear increasingly unachievable.

The Imperial team provides recommendations for financial institutions in evaluating risks associated with carbon-emitting borrowers and principles for monitoring their client’s carbon reduction strategies. Dr Anastasiya Ostrovnaya, Research Fellow, said “Without accurate, timely and verifiable metrics, it is impossible for market practitioners to go about their job of pricing risk and funnelling capital to its optimal use. Our report highlights that we’ve got to shift the focus from data about projects to better standards and transparency from entire companies.”

Imperial’s report emphasizes the role of the private sector in providing the necessary investment firepower to reduce carbon emissions. This is especially important in light of the COVID pandemic and the desire to “build back better.” Transition finance will be needed to aid the recovery, help firms upgrade, and restructure their business operations for lower-carbon energy systems.

The report is available to download from the Business School’s website (https://www.imperial.ac.uk/business-school/faculty-research/research-centres/centre-climate-finance-investment/research/tra

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