# UNEP releases The Coming Financial Climate report

A new report by the UN Environment Programme (UNEP), The Coming Financial Climate, identifies measures that can make climate security an integral part of a sustainable financial system.


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These measures cover risk, capital mobilisation, transparency and a shift in the financial culture. Each country will need to decide how these options relate to its financial system and priorities for action.

The World Bank estimates that over the next 15 years, the global economy will require $89 trillion in infrastructure investments across cities, energy, and land-use systems, and $4.1 trillion in incremental investment for the low-carbon transition to keep within the internationally agreed limit of a 2º Celsius temperature rise.

Tackling climate change requires economic transformation and a re-channelling of private finance. According to the report, the task for those charged with governing the financial system is to enable the orderly transition from high-carbon to low-carbon investments, and also from vulnerable to resilient assets.

## Stranded assets

As with all financial shifts, this is likely to generate a set of transition risks for incumbent assets - risks that are not reflected in conventional models for delivering financial stability, which could create billions of dollars of stranded assets.

"To create lasting value in the real economy, we need to continuously evolve the effectiveness of our financial system thereby aligning the financial economy with the needs and markets of the future. Recent trends, such as last year's $270bn market for renewable energy investments and the emergence of new principles, standards and incentives for the fast-moving 'green bond' market, are indicative of the scope for transformation," said UN Under-Secretary-General and executive director of UNEP, Achim Steiner.

"Integrating sustainability criteria that include environment and social factors into the rules that govern the financial system can substantially strengthen the resilience of the world's financial systems, which has been a key goal of governments and regulators since the global financial crises of 2008. If brought to scale, the approximately $300 trillion global financial system could help close the widening gap in sustainable development investment," he added.

Yet, financial markets do not tend to effectively price environmental resources, resulting in undervaluation of natural capital stocks such as clean air, productive soils and abundant water in 116 out of 140 countries across the world.

## Pathway is clear

"The pathway to combating climate change, restoring the balance of planet earth and unlocking opportunity for billions of people is clear - a peaking of global emissions in the next ten years, followed by a deep de-carbonisation of the global economy," Christiana Figueres, executive secretary of the UN Framework Convention on Climate Change, said.

"In order to achieve this, and support the aspirations for growth and poverty eradication of developing countries, the globe's financial systems need to better price pollution and invest in real wealth. It is happening but nowhere near the scale required. Paris 2015 can be a trigger that starts directing the trillions of dollars required away from high carbon, high risk investments and infrastructure towards the low carbon, green economy that is everyone's future," she said.

The costs of high carbon growth include severe health impacts and disruption to infrastructure, water and food security, which in turn trigger greater market volatility, as well as livelihood and economic impacts, particularly in developing countries. In Kenya existing climate variability is already costing up to 2.4% of GDP per year.

Market and policy failures have resulted in the structural mispricing of climate risks, exacerbated by short-term thinking and misaligned incentives, such as the huge subsidies to fossil fuels. This damage is expected to deepen and make risks increasingly unmanageable if we cannot achieve a zero net emissions level of $CO_2$ in the second half of this century.

Download The Coming Financial Climate report.