

The Critical Role of Sustainable Finance in Decarbonization

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Author
Tobias Temmen

With the urgency of climate change intensifying, the finance sector is being called upon to enable the rapid net zero transition. Sustainable investing strategies aligned with decarbonization aims are gaining major momentum globally and in Switzerland.

What is Sustainable Finance?

Sustainable finance incorporates environmental, social, and governance (ESG) factors into investment decisions and financial system oversight [1]. This encompasses approaches including:

- ESG Investing: Integrating ESG criteria into portfolio construction and management.
- Impact Investing: Targeting measurable positive social or environmental impact alongside financial return [2].
- Green Finance: Financing climate and environmentally-focused projects and assets [3].
- Climate Finance: Directing capital towards climate change mitigation and adaptation solutions [4].

The overarching goals are to mobilize more private capital towards sustainability while managing risks and maximizing transparency.



Decarbonization Frameworks

Multiple sustainable investing frameworks specifically address decarbonization [5]:

- Carbon Neutral Investing: Offsetting portfolio emissions through purchasing carbon credits to achieve net zero emissions.
- Net Zero Investment: Committing to reduce portfolio emissions on a trajectory consistent with economy-wide net zero 2050 targets.
- Low-Carbon Investing: Minimizing exposure to high-carbon sectors and assets by tilting portfolios towards cleaner alternatives.
- Paris Aligned Investing: Limiting global warming to 1.5°C or lower, in line with the Paris Agreement ambitions.
- Decarbonization Strategies: Actively employ a range of approaches to lower portfolio emissions and carbon intensity.

Enabling Climate Solutions

Beyond managing climate risks, sustainable capital can directly finance solutions [6]:

- Renewable Energy Finance: Funding development of solar, wind, hydropower, geothermal, and other zero-emissions energy sources.

- Clean Technology Financing: Supporting advancement and deployment of emissions-reducing technologies.
- Green Bonds: Issuing use-of-proceeds bonds financing eligible climate or environmental projects. The global green bond market surpassed \$1 trillion in size in 2021 [7].
- Biodiversity Financing: Protecting natural ecosystems through concessionary loans, philanthropy, and market-based instruments.
- Carbon Credits: Generating transferable emissions reduction certificates from carbon removal or avoidance projects to offset hard-to-abate emissions.

Swiss Sustainable Finance

Switzerland is home to a highly engaged sustainable finance ecosystem [8]. Key players include:

- Swiss Sustainable Finance: Association with over 200 members driving mainstream adoption.
- SIX Swiss Exchange: Europe's largest stock exchange offers ESG reporting guidance and green bond trading segments.
- Energy Infrastructure Switzerland: Platform for renewable energy and cleantech project finance.

- BlueOrchard Finance: Leading Swiss impact investing fund manager with over \$5 billion under management.
- South Pole: Zurich-based project developer and offset retailer financing decarbonization worldwide.
- ResponsAbility Investments: \$3.5 billion emerging markets-focused manager excelling at blended finance.

While sustainable finance offers diverse capital allocation options, investors must harness with urgency and at scale to meet net zero milestones.

The Need for Speed and Scale

The Swiss financial sector is still in the early stages of its sustainability journey. However, growing momentum towards frameworks like net zero asset management and partnership models between traditional and impact investors can accelerate progress [9].

While sustainable finance offers diverse capital allocation options, investors must harness with urgency and at scale to meet net zero milestones [10]. As stewards of tremendous resources, the global financial sector bears the imperative and opportunity to enable the low-carbon transition.

Mobilizing Switzerland's Future Business Leaders for a Sustainable Economy

As a network of future business leaders, the Swiss MBA Association is uniquely positioned to accelerate Switzerland's transition to a sustainable economy. By leveraging the diverse expertise of its members and fostering

collaboration on innovative green finance and technology solutions, the association can drive meaningful impact. Convening and empowering this MBA community to apply their skills towards decarbonization and ESG advancement will be key to shaping the future of sustainable business in Switzerland. The Swiss MBA Association has the opportunity to guide its members in spearheading the green finance revolution and pioneering regenerative business models that lead markets into a net zero future.

About the Author

Tobias Temmen is a Venture Builder & Partner, and co-founder at THE GARDENS, a company that is revolutionizing sustainable innovation spaces. With over ten years of experience in asset management, entrepreneurship, venture capital, and real estate, he has a passion for connecting people, capital, and ideas that can positively impact the world.

[1] <https://www.oecd.org/finance/Sustainable-Finance-Policy-Handbook.pdf>

[2] <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

[3] <https://www.unepfi.org/green-finance/market-size-and-composition/>

[4] <https://www.cisl.cam.ac.uk/business-action/sustainable-finance/climatewise>

[5] <https://www.msci.com/documents/1296102/12590947/MSCI-ITR-CaseStudy-cbr-en-Final.pdf>

[6] <https://www.oecd.org/development/financing-sustainable-development/Framework-for-SDG-Aligned-Finance-OECD-UNDP.pdf>

[7] <https://www.climatebonds.net/2022/04/sustainable-debt-tops-1-trillion-record-breaking-2021-green-growth-75-new-report>

[8] <https://www.sustainablefinance.ch/en>

[9] https://www.bafu.admin.ch/dam/bafu/en/dokumente/wirtschaft-konsum/ud-umwelt-diverses/vorschlaege_fuereinenfahrplanzueinemnachhaltigenfinanzsysteminde.pdf.download.pdf/proposals_for_a_roadmap_towards_a_sustainable_financial_system_in_switzerland.pdf

[10] https://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf