Put your money where your climate is

Climate change considerations can be made part of regular financial decisions

As a member of the Expert Panel on Sustainable Finance, I joined colleagues on the panel in recently publishing our final report on mobilizing financial services to support Canada's economic prosperity through the global transition to cleaner growth.

Our recommendations seek to connect the dots between Canada's climate objectives, its economic ambitions and its investment imperatives. The overriding message is that if Canada is to meet its long-term environmental and economic objectives, sustainable finance needs to go mainstream.

Put simply, climate-conscious risk management and investment need to be part of the everyday savings and investment decisions made by individuals and businesses across Canada.

The report makes recommendations to grow and scale the market for sustainable finance, and then focuses on the products and services needed to meet the financing requirements of Canada's economic sectors that are critical to the transition to cleaner growth, such as clean technology, oil and natural gas, infrastructure, buildings and electricity.

Normally, this would be all you need; market forces should do the rest. But globally, the market is not keeping up with climate change, and Canada is not keeping up with its peers.

Engaging Canadians

To accelerate climate-conscious investment, we go a step further and recommend actively engaging Canadians in the climate opportunity and making their stake in fighting climate change more tangible.

To engage them, we recommend the federal government create an incentive for Canadians to invest in accredited climate-conscious products. Specifically, we recommend that the minister of finance create additional space in RRSPs and defined contribution pension plans for these investments and offer a "super deduction" — in other words, a taxable income deduction greater than 100 per cent — on eligible investments.

With few Canadians maximizing their registered savings contributions, the super deduction is a way to broaden the reach to every Canadian with a registered savings or defined contribution pension plan.

This simple intervention could be powerful. The economic effects of climate change and the opportunities for new value creation would be discussed and debated as part of Canadians' savings and investment decisions, and individual investors would have a tangible stake in the performance of solutions.

The effect would be to significantly accelerate the fly wheel of climate-conscious investment advice, product development and capital flows to sustainable economic activities.

Working with provinces

To engage the business and financial communities, we recommend that the federal government work with the provinces and the private sector to develop a capital plan that maps out the necessary investments to realize Canada's environmental and economic objectives.

This all starts with an ambition for innovation and global competitiveness, sector by sector, and a strategy to get there. The capital plan to underpin this strategy would include financing requirements and sources — both public and private — and identifying critical financing gaps.

This sounds like a big job — and it is. But fundamentally, it's what anyone would do when considering an investment.

Suppose you decide to remodel your home to make it more comfortable, improve its esthetics and reduce your energy costs and greenhouse gas emissions. You would begin with a vision for your remodelled home; you would research the available technologies and designs and develop a strategy to achieve your vision; and you would develop a capital plan to finance the project, drawing on different sources — perhaps some of your own savings, a government green grant or loan program and a new mortgage from a bank. You would also consult your home insurance provider and consider how to make your remodelled home more climate-resilient and, in doing so, improve your comfort and reduce your home insurance premiums.

Our recommendation is simply that we do this for the whole economy, sector by sector.

'Mid-century objective'

We also recommend extending the horizon for Canada's climate ambitions beyond 2030 to 2050. With 2030 little more than a decade away, we need a mid-century objective to provide the horizon to mobilize capital at scale.

Together, a clear vision, a mid-century target and an associated capital plan would spell out the scope and horizon of the opportunity very tangibly, providing a beacon for the private sector and a road map to where their ingenuity, expertise and capital are needed.

Of course, the capital plan would be a forecast and would need to be updated as new technologies develop, climate effects materialize and new information becomes available, but a plan beats no plan.

Canada has some catching up to do, but we believe our country can be among the leaders in the global transition to a low-emissions, climate-resilient future.

But seizing this opportunity will require us to lean in and put some skin in the game. We believe our practical and achievable recommendations could prime the opportunity and make climate change part of Canadians' everyday savings and investment decisions.

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