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Earth Overshoot Day

Financial sector should respect planetary boundaries



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News by Hans Stegeman

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Many European countries will have their 'Earth Overshoot Day' in the coming weeks. The Netherlands had its overshoot day on April 12. If everyone in the world lived like us, on that day everyone worldwide would have consumed as much raw materials as the earth yields in an entire year. We would need 3.5 earths every year.

An untenable situation, which is reinforced by the financial sector. The [Banking on Climate Chaos](#) report, published on 13 April, shows that in the seven years since the Paris Agreement was adopted, the world's 60 largest private banks financed fossil fuels with USD 5.5 trillion.

Financing decisions do not take planetary boundaries into account in any way. It is time for this to change. The ecological footprint of the financial sector needs to be reduced.

Consequences

Every financing or investment has an impact, negative or positive. After all, every project, initiative or company has a footprint and contributes to a better world, or not. The choice that a financial institution makes to provide a loan or to make an investment therefore by definition has consequences for people and the environment.



In recent decades, the financial sector seems to have taken on a life of its own and no longer serves the real economy. We need to reverse this.

Ecological footprint

The reality is that the financial sector has a significant ecological footprint. Consider, for example, investments in the fossil industry: on balance, financial institutions invest much more money in fossil energy than in sustainable energy. The current climate action plans of many financial institutions, within the Netherlands and abroad, contain long-term promises. Different choices are needed now, however, as the IPCC recently ruled, to prevent the earth from warming more than 1.5 degrees.

Damaging ecology

On more fronts, the financial sector is damaging ecology. It has a role in all the raw material flows that are funded. In addition, common agricultural activities in the Netherlands are associated with biodiversity loss and nitrogen emissions. Furthermore, Dutch financial institutions worldwide finance almost [100 billion](#) euros to companies involved in controversies in our living environment.

Responsibility

Of course, you can argue, it is always the customers of the financial sector who do this. Financiers only finance. And if it's within the law, what's the responsibility? That is a very narrow view of the responsibility of the financial sector, even in terms of well-understood self-interest. In addition to being a social responsibility, it is also in the interest of the financial sector itself not to let biodiversity problems and global warming get out of hand. Sensible risk policy requires managing those most existential risks.

Make a difference

There are three main areas in which the financial sector can make a difference and reduce its ecological footprint, namely 1) financing the energy transition and setting more ambitious reduction targets; 2) stimulating the circular economy and setting circularity targets; and 3) making the agricultural sector more sustainable and setting nitrogen targets.

Firstly, there is a lot to be gained by financing the energy transition and reducing the CO2 emissions of the existing portfolios. Ambitious targets to reduce emissions are crucial; 2050 is far too late.

In addition, it is quite possible to reduce earth overshoot days by being more aware of raw materials. More than 100 billion tons of raw materials are used annually, of which only 7 percent is reused. The financial sector must focus more actively on companies that put circularity and natural materials at the heart of their business model. This should not be an optional decision. Measuring raw material use and consumption can be improved and detailed. After all, the Netherlands also has a target of 50% circularity by 2030. It is high time that the financial sector embraced this.

And finally, the financing of the agricultural and food system must change. Currently, the way agriculture is conducted has the greatest negative impact on the environment. The current agricultural system has reached its limits. We need to balance the use of ecosystems, our eating habits and the increasingly globalising food markets. Producing healthy food for all, while respecting the boundaries of our planet and paying farmers fairly. This requires nature-inclusive agriculture and a facilitating financial sector.

Acceleration

Taking really big steps requires accelerating the sustainability of the Dutch economy. In the first instance, this can facilitate the financial sector itself by making conscious choices. The government can and should accelerate this by pricing, norming and prohibiting. Pricing is about CO2, but also concerns food and raw materials.

In recent decades, the financial sector seems to have taken on a life of its own and no longer serves the real economy. We need to reverse this. Financial institutions can help delay Earth Overshoot Day as early as next year by focusing on reducing CO2 emissions, and broadening this by actively focusing on their ecological footprint.

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