وزارة التغير المناخي والبيئة

MINISTRY OF CLIMATE CHANGE & ENVIRONMENT

UNEP FINANCE INITIATIVE

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2016 GLOBAL ROUNDTABLE

INTRODUCTION

In 2016, the UN Environment Finance Initiative held its 14th Global Roundtable in Dubai, United Arab Emirates on 25-26 October. The event was hosted by the United Arab Emirates Ministry of Climate Change and Environment with the support of the Central Bank. It was the first such event held in the Middle East.

The 14th Global Roundtable was a critical step in moving towards the delivery of the Sustainable Development Goals, the Paris Climate Agreement and other major global agreements and events of 2015. A major focus of the event was to help the finance community to understand what this new global agenda means for the finance sector. It was also an important next step in defining the global finance agenda, following the 13th Roundtable, which was held in Beijing. The 13th Roundtable looked at how to align the financial system to a low-carbon, resource-efficient and sustainable path and spurred important advances in China, such as making green finance a major focus of its G20 presidency.

ANNOUNCEMENT HIGHLIGHTS

- Unveiling of the Dubai Declaration on Sustainable Finance
- New partnership between the Finance Initiative and the RFI Foundation to advance sustainable Islamic finance
- Launch of the Finance Sector Supplement to the Natural Capital Protocol
- Launch of the Finance Initiative's Guide to Banking and Sustainability – Edition 2
- Launch of the Finance Initiative's paper Connecting Financial System and Sustainable Development: Market Leadership Paper
- Development of the Principles for Positive Impact Finance
  - Positive Impact Finance is that which serves to finance businesses seeking to make a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.
- Launch of a new process by the Finance Initiative to track progress in the sustainability of finance institutions

PROGRAMME HIGHLIGHTS

Over the two-day event, nearly 400 participants, including leaders from all parts of the financial system as well as from civil society, academia, government and the United Nations discussed the most pressing sustainable development issues for the finance sector. Sessions explored a variety of topics, including the meaning of the new global sustainability agenda for the finance sector, sustainable Islamic finance, decarbonizing finance, creating environmental assets, and many more.

The thought-provoking discussions generated insights into several key questions about the future of finance.

BIG QUESTIONS ADDRESSED

1. What do the new sustainable development and climate change agendas mean for the financial sector?
2. How can the finance sector become a driver of sustainable development?
3. How are technology and social changes influencing the future of finance?
4. What are emerging trends and needs in risk measurement?
5. What leading-edge business opportunities are emerging?
6. What does sustainable finance have to learn from Islamic finance?
7. How can the transition to sustainability in the finance sector be accelerated?

For each of these focus areas this report highlights key points made during the event.

WHAT DO THE NEW SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE AGENDAS MEAN FOR THE FINANCIAL SECTOR?

THE 2015 SUSTAINABLE DEVELOPMENT AGENDA

2015 was a landmark year in which a global Sustainable Development Agenda was set through the approval, adoption, or endorsement of several global frameworks. 2015's most significant global developments were:

- In September 2015, 193 countries agreed to the 17 Sustainable Development Goals and associated 169 targets, which set an agenda to realize sustainable development globally by 2030;
- In December 2015, 195 countries adopted the Paris Agreement on Climate Change, which sets a target of limiting climate change to a 2°C target with a 1.5°C ambition. It also detailed clear national level actions, determined by each country, for how to adapt to and mitigate climate change. The agreement came into effect on 4 November 2016 after being ratified by 55 countries;
- In March 2015, UN Member States adopted the Sendai Framework for Disaster Risk Reduction, which aims for "the substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries";
- In July 2015, 193 UN Member States reached an agreement on the Addis Ababa Action Agenda for Financing for Sustainability which is a negotiated global framework for financing sustainable development that aligns all financing flows and policies with economic, social and environmental priorities.

In addition to these four developments, 2016 has also seen the agreement of 197 countries to the legally binding Kigali Amendment to the Montreal Protocol, which phases down the

production and use of hydroflurocarbons. Another development that was mentioned several times at the Global Roundtable was the initiation, by the G20, of a green finance study group.

$5 to $7 trillion annually is expected to be required in order to deliver on the global sustainable development agenda. Much of this finance must come from the private sector.

Speakers translated this new agenda into implications for the finance sector:

1. There are going to need to be significant changes to the way that our economic systems function;
2. The financial system will need to adapt;
3. Public and private collaboration is becoming the new norm;
4. Embracing sustainability is becoming part of everyday business practice;
5. The risk paradigm has changed.

THERE ARE GOING TO NEED TO BE SIGNIFICANT CHANGES TO THE WAY THAT OUR ECONOMIC SYSTEMS FUNCTION

"Financing green investments is a main approach in the UAE, where work has begun to involve the finance sector, establish partnerships and develop policies and regulations to stimulate the private sector to invest more in green projects."

H.E. Dr Thani Al Zeyoudi
Minister of Climate Change and Environment, United Arab Emirates

"Unless we look at the sustainable factor and have it embedded in all of our regulations that govern industries and corporations and the way that money is being made, we are heading for a disaster."

Tirad Al-Mahmoud
CEO, Abu Dhabi Islamic Bank

"We won't make the change through special initiatives. Green bonds are needed, but what we really need is to make the very core of the global capitalist system greener and more inclusive. Right now the profit created by destroying the environment is nearly always privatized, while the cost of destroying the environment is nearly always socialized."

Erik Solheim
Head of UN Environment

THE FINANCIAL SYSTEM WILL NEED TO ADAPT

"We need not only to stop financing bad things, but we also need to support new investment if we want to achieve the sustainable development goals."

David Pitt Watson
Senior Strategic Advisor, Inflection Point Capital Management

"The financial system should go back to its base. The financial system was created to serve the real economy. We forgot that role and we created finance for finance."

Dr. Atiur Rahman
Former Governor, Bangladesh Bank
Professor of Economics, University of Dhaka

"The world has had more than its share of recycled promises. We need progressive doers to ACT. A determined can-do-spirit is a powerful renewable resource."

H.E. Dr. Nadia Makram Ebeid
Member of the Board of Directors of the Commercial International Bank
Former Minister of the Environment, Egypt

"We must work together to stop mispriced risk and short-term thinking in the financial sector."

Erik Solheim
Head of UN Environment

Decarbonizing the economy

Speakers on the topic of decarbonization noted that achieving decarbonization of economies will require the financial sector to set specific organizational goals including clear targets and metrics; revision, evaluation and reduction of carbon in portfolios; issuing of green bonds, refusal to operate in specific economic sectors and de-investments.

PUBLIC AND PRIVATE COLLABORATION IS BECOMING THE NEW NORM

"There is a recognition now that the public sector and the private sector have to work together. The needs for finance are so immense that no government can afford to do all of the things that need to be done."

Dr. Lars Thunell
Chair, African Risk Capacity Insurance Company Limited (ARC Ltd).
Former CEO, International Finance Corporation

"To achieve ambitious targets of renewable energy deployment towards the green transformation of an economy, a large number of private-sector projects will need to be arranged and implemented, not just the prominent projects fully backed by governments."

H.E. Dr Thani Al Zeyoudi
Minister of Climate Change and Environment, United Arab Emirates

"All parties are now more committed to sustainable development and understand their role. There is now dialogue and discussion on these issues. You now have all parts working together."

Dr. Patrick Njoroge
Governor, Central Bank of Kenya

EMBRACING SUSTAINABILITY IS BECOMING PART OF EVERYDAY BUSINESS PRACTICE

"The private sector is recognizing that being green is both necessary as a risk management strategy and because customers demand it. Successful companies are integrating environmental and social aspects into their core business more and more."

Dr. Lars Thunell
Chair, African Risk Capacity Insurance Company Limited (ARC Ltd).
Former CEO, International Finance Corporation

"Good environment clients yield better revenue for banks and reduce finance costs."

João Consiglio
Vice-President Executive Officer and Member of the Board of Executive Officers, Banco Santander (Brasil)

"I don't just want to look at the bottom line, or at philanthropy. I want to look at risk, at how a company incorporates environmental and sustainable goals in its business in the long-term. In a post-Paris world, how do companies think about the future? This is what investors want to know."

Fiona Reynolds
Managing Director, Principles for Responsible Investment

H.E. Dr. Nadia Makram Ebeid, a board member of the Finance Initiative's first member in Egypt, Commercial International Bank said,

"At the Commercial International Bank we know and believe that the new global agenda stresses not just development cooperation, but also the importance of structural economic transformation. That is very closely linked with our thinking, our philosophy, and our evolving green journey of transformation and change."

"Low energy efficiency property will become a burden for banks rather than an asset."

Richard Kooloos
Director of Sustainable Banking, ABN AMRO

It was also noted that many financial organizations have withdrawn investments in fossil fuels without negative impact on their investment performance.

THE RISK PARADIGM HAS CHANGED

"It is only when we see how we are exposed to the risk of not managing this economic transition smoothly that we can start to have real conversations. And it is only when we understand that, that we will see the size of the opportunity."

Rachel Kyte
CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

"The risk is to ignore the changes and not to take advantage of the opportunities available… Now the risk is not to go ahead and grab the opportunities. It is a much bigger risk to just continue in the traditional way."

Najib Saab
Secretary-General, Arab Forum for Environment and Development

"Too many investors still believe the risk of moving into new areas is too high. They prefer to keep doing what was done yesterday and the day before, instead of calculating the risks and opportunities of moving into something new."

Erik Solheim
Head of UN Environment

"In many cases we don't really understand the risks. Understanding risk and the perception of risk is very important."

Dr. Lars Thunell
Chair, African Risk Capacity Insurance Company Limited (ARC Ltd).
Former CEO, International Finance Corporation

HOW CAN THE FINANCE SECTOR BECOME A DRIVER OF SUSTAINABLE DEVELOPMENT?

"Financial institutions must be bold: they are the engines to drive innovation and change."

Rachel Kyte

CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

INTEGRATE SUSTAINABILITY INTO THE CORE OF THE BUSINESS MODEL

"The job is to translate the leadership at the political level through the Sustainable Development Goals and the Paris Climate agreement into the opportunity for the financial sector to really start building scale."

Rachel Kyte

CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

"The role of a bank is to receive deposits from customers and choose the best projects to apply those resources to… it's our duty to build the future where our customers will live and spend their savings."

João Consiglio

Vice-President Executive Officer and Member of the Board of Executive Officers, Banco Santander (Brasil)

Both Banco Santander and ING Bank reported that they have begun to "tag" clients in terms of sustainability and are putting "green clauses" in their contracts.

Where ING has integrated an environmental approach in their business, they have seen their profits increasing, making it possible to run the bank differently. They are investigating how to push this further by looking at how the clients used their assets, and examining the whole cycle of their business, finding where other economic and environmental savings can be made, an approach known as "circular financing".

A team at Banco Santander (Brasil) began collecting detailed information about clients that it was lending to and found that those clients that included environmental and social elements into their business plans and models had a 35% lower default rate than those that didn't. This is leading to a shift in lending practice.

According to Richad Soundardjee, CEO Middle-East, Société Générale Group, in order to advance its positive impact agenda, the bank has now issued two green bonds, and has created ethical products for retail clients.

As reported by Richard Kooloos, Director of Sustainable Banking at ABN AMRO, the bank conducted an energy efficiency retrofit on their headquarters with a 7 years estimated payback. This was to illustrate their belief in energy efficiency and to "walk the talk" of the bank.

The Sustainable Stock Exchanges session laid out a set of recommendations for how financial markets can drive sustainability. These echo many of the recommendations made throughout the event for the finance sector as a whole.

- Engage financial actors in becoming better corporate citizens by incorporating values such as gender equality and empowerment, workers' rights, and equal pay into their business
- Discuss sustainability with listed companies that have strong potential to advance the sustainability agenda
- Engage in education and capacity building
- Shift from voluntary commitment to binding regulations, ultimately recognizing the validity of sustainability in business

EMBRACE TRANSPARENCY AND DISCLOSURE

"The need for more transparency is going to come."

Rachel Kyte
CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

Many speakers noted that finance institutions will need to enhance their sustainability data gathering and disclosure. Speakers challenged financial institutions to voluntarily develop and implement standardized disclosure practices, before they are imposed from the outside.

COLLABORATE

"We need to share more information to not reinvent the wheel, and go faster."

Denise Hills
Head of Sustainability, Banco Itau Holding Financeira

"There is an opportunity to create new, profitable business. Positive impact also requires a new value chain to be created. In that sense we banks need also to work more with some of the change agents that we can have in this value chain. Especially, I'm thinking about civil society, which is not necessarily a concept that we, in the banking system have embraced, but I think we need to learn to work more with civil society."

Richad Soundardjee
CEO Middle-East, Société Générale Group

LEAD IN REGULATORY INNOVATION AND CHANGE

"The financial sector is powerful. And its powerful voice is used in debate about regulation every day of the week. And frankly, the voice is not strong enough in the call for the rules that have to be set for you to be the engine that will drive this revolution forward…Call now for the rules that will allow you to grow, will allow you to turn a business that will reward your own shareholders and will allow you to be a part of a positive conversation about how we re-harness the financial sector to the economic transition that we are about to go through."

Rachel Kyte
CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

Denise Hills, Head of Sustainability at Banco Itau recounted a story of how several Brazilian financial institutions developed a voluntary commitment on environmental, social and governance integration. This voluntary commitment led to a regulation by the central bank which has moved finance of green sectors over one year from 9% to 20% of the total credit and loans in Brazil.

PUSH DECARBONIZATION

"Cutting the carbon risk of finance is not enough. We need to reach carbon neutrality."

Piet Sprengers
Head of Sustainability, ASN Bank

"We need tough investor engagement strategies with the oil & gas."

Catherine Howarth
Chief Executive, Share Action

HOW ARE TECHNOLOGY AND SOCIAL CHANGES INFLUENCING THE FUTURE OF FINANCE?

FINANCIAL TECHNOLOGY

Speakers at the Global Roundtable described how financial technology is disrupting finance. They said that it is making financial products and services more easily accessible, creating new channels and presents the industry with different types of clients. They also pointed out that financial technology will require new approaches to financial regulation.

Sun Tao, Senior Director at Ant Financial commented on the success of Ali Baba's Ali Pay system, which has 450 million users, a system that promotes affordable, reachable and sustainable financial inclusion.

Gus Schellekens, a Partner in the Middle East North Africa Clean Energy and Sustainability Services team at Ernst and Young commented that financial technology has increased access for small and medium enterprises and improved productivity through faster online transactions.

Financial technology is key to financial inclusion in many developing countries and is enabling leapfrogging, according to Samuel Makome, Chief Operating Officer at the KCB Bank Group. He shared that, over the last 20 months the Kenya Commercial Bank has lent **US$120 million through their mobile channel, without collateral, using data analytics for screening, touching over 10 million customers**.

The Commercial International Bank reported that they are opening a venture capital lab to advance their access to the latest technologies, including green technologies that are redefining the financial industry. To keep focus on innovation, the bank measures not only its cost-to-income ratio, but also its investment in technology, innovation and sustainability.

“Technology really helps us to dramatically increase the scope and scale of our products. If you look across Africa, mobile technology gives, for example, farmers access to microinsurance products to protect their seeds from the next drought or to get savings products. All that contributes to sustainability. Technology will help to reduce that trade-off between short term profits and mid term or longer term sustainable investments.”

Bernd Kohn
Chief Executive, Africa and Middle East, Munich Re

SOCIAL CHANGES

Executives from Banco Santander, Munich Re and Hermes Investment Management commented that employees in their institutions have responded positively to being involved and engaged in sustainability within their finance activities. They shared stories about employee retention, engagement, and positivity about being part of the institution.

Speakers also pointed out that, in particular youth are pushing the ethical agenda for their institutions, both as clients and as employees.

WHAT ARE EMERGING TRENDS AND NEEDS IN RISK MEASUREMENT?

Many sessions touched on specific risks and how they can be accounted for and measured.

WATER, FOOD AND ENERGY

"We all know the importance of a healthy economy without a healthy planet, particularly in the agriculture sector. Without water we couldn't have the goods to support the population, or the energy we need to process the food."

Rosemary Bissett
Head of Sustainable Governance and Risk, National Australian Bank

Many tools are available to identify where there are risks for food or water scarcity, but they often fail to present the full complexities involved. Understanding and measuring the interconnectivity between energy, water and food is fundamental and crucial as there are many interdependencies among the three.

Looking at the crossover between energy, water and food (the nexus) to understand the interconnections between these three items and what they mean in terms of risk and opportunity is still a relatively new approach, but is being used with some success by groups in civil society, the public sector, and business. To be robust and widely applicable, greater mapping and data analysis, and further development of the approach is still needed.

DROUGHT

As reported by Yannick Motz, Green Finance Project Manager at GIZ, a partnership pilot project on environmental stress testing to assess the potential impact of droughts on the performance of corporate lending portfolios has been developed. This pilot looks at direct and indirect vulnerabilities and estimates the probable losses that a drought would generate for a given loan and company.

CITIES AND BUILDINGS

As speakers discussed, urban populations consume two thirds of the world's energy while producing 70% of global CO2. Additionally, 80% of the cities are exposed to earthquakes while 70% to floods, as many cities are built near water. The consequences and the costs of natural disasters on millions of citizens are yet to be accounted for.

Buildings constructed with a sustainable approach in mind last much longer and constitute a "good" risk.

LEARNING FROM THE INSURANCE SECTOR

Speakers pointed out that climate change considerations are part of the DNA of the insurance industry as they have to include them in their risk calculations and disaster models in order to establish the appropriate premiums. If they misjudge, they carry the burden of this risk for a very long time. There is value for the insurance business to reduce all potential risks regarding disasters, health and global living conditions.

DUBAI DECLARATION

"Eleven leading UAE financial institutions made a clear commitment to advancing sustainable finance practices towards the country's 50th anniversary in 2021. This marks a great first step which helps make the UAE's green economy transition possible. We look forward to continuing to work with the finance sector to realize a sustainable future."

Hussain Khansaheb

Director of Green Development, Ministry of Climate Change and Environment, UAE

At the opening of the Global Roundtable eleven United Arab Emirates-based financial institutions committed to the Dubai Declaration on Sustainable Finance. In the declaration the institutions confirm their support for the UAE Vision 2021, endorse the UAE government's commitment to the Paris Climate Agreement and the Sustainable Development Goals, as well as support the sustainable development of the country in line with the UAE Green Agenda 2015-2030. In the declaration the financial institutions:

- recognize the roles that the finance sector can play in enabling a climate-resilient, inclusive green economy and sustainable development;
- declare their aim to expand and accelerate specific sustainable finance practices; and
- articulate a set of concrete actions to advance sustainable finance.

WHAT LEADING-EDGE BUSINESS OPPORTUNITIES ARE EMERGING?

"We need to understand risk better but also the size of the opportunity."

Rachel Kyte

CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

"I am convinced that mobilizing finance towards the Sustainable Development Goals is really an opportunity for capital markets in the region."

Neza Hayat

Chair, Moroccan Capital Market Authority

RENEWABLE ENERGY

As many speakers stated, transitioning from a fossil-based economy to one based on renewable energy is one of the most pressing needs of this era. There is currently an aim to triple global investment in renewable energy by 2020, and already in the last year, investments in renewable energy have exceeded investments in fossil fuels for the year.

Speakers shared ideas and trends in renewable energy that could be informative for financial institutions.

- A great deal of renewable energy is produced in a geographically distributed way, rather than in centralized power plants. This provides many smaller investment opportunities.
- There are many different, innovative financing approaches that are being developed for renewable energy. These include taking an energy services approach, and providing partial credit enhancements, which provide some protection to later investors, making it possible to increase the scale of financing of renewable energy.
- Public-private partnerships are still key to driving renewable energy development.

ENERGY EFFICIENCY

Many speakers shared ideas about how finance can reduce energy needs, and generate new income through increasing efficiency, particularly in property.

At Sumitomo Mitsui Trust Bank a direct correlation was found between the environmental performance of buildings and rents. The bank included specific indicators of environmental performance such as energy intensity, carbon intensity, water intensity, indoor air quality, earthquake resistance and natural disaster resilience in their rating system. They now offer Environmental Rating Loans with evaluation of Natural Capital Preservation.

At ABN Amro they found that buildings with better energy performance have better investment returns. Accordingly, ABN Amro adopted the following strategy:

- They provided their real estate clients with insights on how they can improve the efficiency of their real estate;
- They work to encourage energy efficiency in corporate clients, for whom real estate is not their core business;
- They stay away from investing in buildings with poor energy performance.

Stephane Le Gentil, CEO of Etihad Energy Service Company (ESCO) shared their energy efficiency finance approach. The initiative was established in 2013 with a mission of renovating 30,000 buildings in Dubai by making them energy efficient. Etihad coordinated the work of various energy service companies, secured financing for the project, and brought its expertise and project management capabilities. The firm developed an innovative financing scheme, which is in line with Islamic finance. The joint venture generates profit and is easily replicable.

ENVIRONMENTAL ASSETS

As was discussed in the session 'Investing in and Creating Environmental Assets', there is currently a great deal of work happening to try to set up accounting frameworks to value the stocks and flows of the natural services which are critical for life. A few of these are the Wealth Accounting and the Valuation of Ecosystem Services (WAVES) programme, the work of the Australian Bureau of Statistics, and The Economics of Ecosytems and Biodiversity. The areas that they are trying to value are:

1. Mineral and energy;
2. Land;
3. Soil;
4. Timber;
5. Aquatic life;
6. Other biological assets;
7. Water.

There are opportunities to increase the stocks of living and natural resources and ecosystem processes via investments that seek to protect, improve or manage an asset:

- Direct investments in environmental assets to secure and deliver important services (hydropower, reforestation, erosion reduction);
- Investment that increases the size of an asset with potential high economic returns and social benefits, for example investing in upstream water quality to reduce drinking water supply costs, or investments in coastal zones to increase the returns from tourism and fisheries;
- Indirect investments such as reducing pollution going into the ocean thus indirectly increasing its value.

To make these investments, we need to know the full value of these assets. This new knowledge should lead to a new class of environmental assets and pricing. For example, in agriculture, water is pumped for irrigation, which increases the degradation of wetlands. Accordingly, transactions to buy and sell water rights using market forces to determine the price can be implemented to avoid further scarcity. The calculation of the return on investment in these types of assets will have to factor in the related other benefits, which might require developing different types of risk and benefit sharing. This will require shifting focus from risk management to impact.


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WHAT DOES SUSTAINABLE FINANCE HAVE TO LEARN FROM ISLAMIC FINANCE?

"Islamic banking is not about religion, it's about ethics."

Tirad Al-Mahmoud
CEO, Abu Dhabi Islamic Bank

Islamic markets (markets with Muslim majority populations) produce nearly US$7 trillion in GDP and are home to more than 1.6 billion people. Shari'ah-compliant assets were US$2 trillion at the end of 2015 and expected to exceed US$3 trillion by 2020. During the 40 years since modern Islamic finance began, much effort has focused on providing ways for financial institutions to serve their customers in compliance with Islamic precepts regarding interest, excessive uncertainty and avoidance of prohibited business areas. This has led to business practices that prohibit usury, avoid speculation and gambling and aim towards ethical investment. Islamic finance also often includes aiming to go beyond financing a single client, by trying to develop other sectors at the same time, helping finance to serve the economy, rather than an individual.

Though it avoids many of the pitfalls of conventional finance, Islamic finance is still in the process of becoming more sustainable itself.

"Many Islamic values have yet to be fully integrated into Islamic Finance…Islamic finance needs to be more transparent and performance oriented."

Omar Selim
CEO, Arabesque

Speakers described three main lessons that Islamic finance has for sustainable finance:

1. Keep finance linked to the real economy;
2. Share profit and risk;
3. Ethical integration leads to long-termism.

KEEP FINANCE LINKED TO THE REAL ECONOMY

"Islamic finance is a sustainable form of financial intermediation because one of the tenets of Islamic finance is linkage to the economy. You cannot have a financial transaction which doesn't have an underlying economic transaction. Therefore, there is no disconnect between Islamic finance and the economy. You cannot have financial flows that are in excess of the underlying assets."

Dr. Zeti Akhtar Aziz
Former Governor, Bank Negara Malaysia

SHARE PROFIT AND RISK

"Islamic finance is based on profit sharing. Therefore the risk is shared."

Dr. Zeti Akhtar Aziz
Former Governor, Bank Negara Malaysia

ETHICAL INTEGRATION LEADS TO LONG-TERMISM

"Is Islamic finance uniquely positioned to provide value? Yes. We have taken advantage of an opportunity gap out there and brought in this business model. It's ethical finance…Ethics will improve sustainability. If you bring ethical practices into business, then short termism becomes challenged. You cannot pollute as you please because it's simply unethical."

Tirad Al-Mahmoud
CEO, Abu Dhabi Islamic Bank

HOW CAN THE TRANSITION TO SUSTAINABILITY IN THE FINANCE SECTOR BE ACCELERATED?

One rich area of dialogue at the 2016 GRT was how to accelerate the transition to sustainability in the finance sector. Speakers laid out a set of factors that are required for effective change to take place as well. They also described the roles that various actors and approaches can play to advance sustainable finance.

FACTORS THAT WILL LEAD TO SUCCESSFUL CHANGE

Erik Solheim, Head of UN Environment highlighted the lessons to be learned from solving environmental issues like acid rain and the hole in the ozone layer. He said that key factors for success are:

- Encouraging active engagement from the general public;
- Supporting political leadership that is conducive to more effective regulations;
- Mobilising the private sector's ability to develop, accelerate and scale up innovative market based solutions.

Ligia Noronha, Director of the Economy Division at UN Environment summarized what the speakers in the Opening Plenary identified as crucial.

1. Cultivating and communicating a strong vision for change
2. Progressive political leadership for change at the international, national and local levels
3. Fostering transparency and trust amongst players
4. Private sector engagement, transforming markets towards sustainability
5. Developing infrastructure in order to facilitate change
6. Sharing expertise and knowledge
7. Concerted action at all levels
8. Capacity building for governments and finance recipients to undertake sustainability approaches

ROLES THAT DIFFERENT ACTORS CAN PLAY TO ADVANCE SUSTAINABLE FINANCE

Many speakers touched on specific actions that various actors can take to advance sustainable finance.

Governments, central banks, and development institutions

Dr. Lars Thunell, Chair, African Risk Capacity Insurance Company Limited (ARC Ltd) and former CEO of the International Finance Corporation noted that private finance institutions moving into new markets often perceive more risk than is really there. He suggested one solution to this challenge. He said,

"Development Institutions and government have to step in and initially take part of that risk and guarantee it and, in that way, kick start markets."

"If you have better regulations, you have better outcomes."

Dr. Christian Thimann
Head of Strategy, Sustainability and Public Affairs, AXA Group

"What's needed for investors to move forward are clear policy settings and tools. Governments and regulators need to send clear policy signals."

Fiona Reynolds
Managing Director, Principles for Responsible Investment

Dr. Patrick Njoroge, Governor of the Central Bank of Kenya suggested that central banks should:

- use their convening power to bring people together to discuss what is emerging;
- work with commercial banks to help them innovate;
- carefully craft regulation.

"Regulators need to bring incentives to help us finance feasible green projects…for example through capital allocation rates."

Tirad Al-Mahmoud
CEO, Abu Dhabi Islamic Bank

"We need regulators to stop incentives that have been accumulated over the decades for industries that are not ecologically friendly."

Omar Selim
CEO, Arabesque

Finance Leaders

"It is the leadership at the top that creates the ability for firms to make positive changes. That's a cultural thing…It has to be authentic within the firm. Otherwise the siren call of the short-term will always pull you to the direction of the best return."

Gerald Walker
CEO, Wholesale Banking, UK, Ireland & Middle East, ING Bank

"There needs to be more leadership. It needs to be more collective. It needs to be more of a norm. I do think that perhaps when the leadership is as un-diverse as it is, it is very difficult to ask different questions and get different answers… We need much more diversity of viewpoint within the leadership of the financial sector."

Rachel Kyte
CEO, Sustainable Energy for All (SE4All).
Special Representative of the UN Secretary-General for Sustainable Energy for All

"We can't ask the leadership to implement, so one of the keys is really to have ownership and empowerment given to specific teams at the right level of the organization so that they can serve as catalysts of this agenda."

Richad Soundardjee
CEO Middle-East, Société Générale Group

All Actors

"National and large-scale plans and actions need to be translated into actions, tools and what to do for financial institutions and business in the real economy."

Fiona Reynolds
Managing Director, Principles for Responsible Investment

"Getting good data and evidence is key to changing finance."

Antoine Hobeiche
Special Consultant to the Secretary-General, Union of Arab Banks

"We may need to fight the bureaucracy to get the good ideas in place."

Bertrand Piccard
Co-pilot of the Solar Impulse
UN Environment Goodwill Ambassador

"Everyone has a role to bring awareness of what green financing is and the importance of economic sustainability and environmental sustainability in the world that we want to live in."

Dr. Zeti Akhtar Aziz
Former Governor, Bank Negara Malaysia

"You always have to speak the language of the people who you would like to motivate. It is useless to talk about protection of the environment to bankers; you have to speak money, financial needs and results to bankers… I will tell them to observe what is profitable today in terms of energy savings and energy efficiency and to invest in this, to support or fund it!"

Bertrand Piccard
Co-pilot of the Solar Impulse
UN Environment Goodwill Ambassador

STRATEGY AND INNOVATION

One area of lively discussion was the balance and interaction between developing and implementing national strategies and advancing national-level innovation.

Simon Zadek, Co-director of the UN Environment Inquiry into the Design of a Sustainable Financial System summarized the approach that has been used in China in partnership with the Inquiry to advance a sustainable finance system.

"We think broad-based systematic approaches with coalitions of private actors and public actors are what are going to turn interesting innovations into systematic changes at the national level and that, in turn will drive national leadership pushing at the international level."

Dr. Patrick Njoroge Governor of the Central Bank of Kenya and Dr Atiur Rahman, Former Governor, Bangladesh Bank both suggested that in their contexts the approach needed to be less directed, with more focus on innovation. Dr. Rahman laid out the approach that worked in Bangladesh.

"To make the change, you start with small things, experiment, learn from those, make regulations, revise the regulations, bring the industry on board, including citizens, and proceed in a participatory mode."

LOOKING FORWARD

Saker Nusseibeh, CEO of Hermes Investment Management, concluded the conference in its final keynote with this recommendation:

“Our job is to go back to our institutions to galvanize them and ensure that we, as the human race, invest our capital in shaping a world that is worth giving to our children and our grand-children because this is our purpose. And as for the how, yes, we will do the ESG, we will make sure that we shrink the divergence between the poor and the rich, between the North and the South to fulfil this purpose.”

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