UNEP Finance Initiative
Changing Finance, Financing Change

Creating the "New Normal"

Enabling the Financial Sector to Work for Sustainable Development

Perspectives on Financing Sustainable Development in the wake of Rio+20

DISCUSSION PAPER
October 2012

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UNEP Finance Initiative

The United Nations Environment Programme Finance Initiative (UNEP FI) is a strategic public-private partnership between UNEP and the global financial sector. UNEP FI works closely with 200 financial institutions that are Signatories to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through a comprehensive work programme, regional activities, training and research, UNEP FI carries out its mission to identify, promote and realise the adoption of best sustainability practice at all levels of financial institution operations.

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Foreword

For too long the different walks of life have been kept on simultaneous yet distinctly separate tracks. Where financiers would find themselves wholly at home, policy-makers might watch and listen but not take part, and vice versa. In the realm of international negotiations, the banker is but one stakeholder amongst many others.

It should come as no surprise then, that these persons of money, policy and science while focused on their own paths, became increasingly unable to understand each other, or indeed, to look up from the ground. Only to find, of course, that all tracks are riveted to the same ground and destined to carry the same train of humanity.

While almost 30 years ago the Brundtland Commission exhorted us to understand the three pillars that support sustainable development, Rio+20 has rightly sought to wake us up to the fact that it is not just the 'roof' that will not stand up if a pillar fails, but that none of the other pillars can hope to stand up for long in its absence or failure. The pillars are intertwined, and we are called upon for more 'integration'.

What does this mean for the financing of sustainable development?

We believe that the financial resources necessary for sustainable development will be more effectively mobilized if all relevant policy-makers, that is including financial regulators, work together on addressing the workings and constraints of our current financial system, so that it is made to better address the sustainability and development challenges which the world faces.

The existing financial system will inevitably have to provide the bulk of the funds for sustainable development, it is therefore of the essence to understand how it can be made to work more effectively.

While bankers and investors may feel little urge to get involved in 'saving the world' and while talking to bankers and investors about environmental or social protection may still seem unnatural, or to some even unhealthy, this is exactly what needs to happen, and indeed what is starting to happen. A 'New Normal' is emerging.

We hope all players will recognize this unique opportunity for further dialogue and look forward to extending our collaboration to the efforts that will be made in developing a global response to sustainable development.

Together is the only way we can hope to address the challenges that threaten all our families, both today and tomorrow.

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EXECUTIVE SUMMARY

In June 2012, the world's leaders set in motion an intergovernmental process to develop '*an effective Sustainable Development Financing Strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives'* (paras. 255-257, 'The Future We Want', Rio+20).

The Members of the United Nations Environment Programme Finance Initiative (UNEP FI),[1] a global partnership between UNEP and the global financial sector established in the context of the 1992 Earth Summit, and still the United Nations' only dedicated partnership with the financial sector, welcome this decision and are keen to assist a process that could be instrumental in bringing about adequate, low cost finance to address issues of sustainable development.

It is the view of UNEP FI's Members that the financial resources necessary for sustainable development will be more effectively mobilized if all policy-makers are cognisant of the workings and the constraints of our current financial system, and how it can be made to better address the sustainability and development challenges which the world faces. In this context the creation of new institutions such as the Green Climate Fund is to be welcomed. But the international community should equally focus on the existing financial system, which will inevitably have to provide the bulk of the funds for sustainable development, and consider how it can be made to deliver more effectively.

This paper, *Creating the New Normal*, aims to shed light on some of the issues which negotiators may wish to incorporate in their discussions, by focusing on five key points which it deems key for the development of a meaningful and successful sustainable development financing strategy.

1. Definitions: Financing Sustainable Development is Broader than 'green' or 'development' Finance

Financing sustainable development is not just about mobilizing capital for specific projects, such as renewable energies, affordable housing, or proper water treatment. It is also about ensuring that all financial services and transactions are conducted in accordance with the principles for sustainable development. Financing sustainable development means not only 'financing projects', but changing the way in which finance operates – so that its own processes are both sustainable and support sustainability. Not just financing change, but 'changing finance'.

See Chapter 1, p.7

2. Both Public and Private Finance need to be Mobilised

Financing sustainable development is both a public and a private need. Accordingly, it requires the action and mobilisation of both public and private players, including the world's public and private financial institutions. Only joint action will make it possible to attain the 1 to 2 per cent of global GDP per year of investments that have been estimated necessary from 2010 to 2050, to make our global economy more sustainable,[2] especially at a time of prolonged economic crisis.

See Chapter 2, p.8

[1] UNEP FI. See www.unepfi.org

[2] UNEP, 2011, Green Economy Report – Finance: Supporting the transition to a global green economy. See http://www.unep.org/greeneconomy/Portals/88/documents/ger/15.0_Finance.pdf

3. Private Sector Mobilisation Hinges on the Removal of key Gaps, Barriers and Misaligned Incentives

The overall 'financing ecosystem' presents information gaps, market barriers and misaligned incentives that need to be addressed to achieve the financing of sustainable development. It is necessary to consider ways of:

a) Making more and better quality information available to all stakeholders
b) Encouraging and stimulating collaboration between the different financing players that will generate innovative financing solutions
c) Aligning economic, environmental and financial policies and regulations with broader sustainability goals

See Chapter 3, p.10

4. Good Practice is Already Available

From strategic policies and targets to innovative standards and norms, from innovative financial solutions to extensive awareness and capacity-building programmes, there are already multiple experiences, measures and policies in place. The key to addressing and financing the world's sustainable development needs lies, to a large extent, in connecting and scaling up initiatives, skills and knowledge that already exist.

See Chapter 4, p.14

5. Where Next? Developing a Collaborative Approach to Sustainable Finance

Mobilising all relevant players to agree on, and implement, a viable strategy for the financing of sustainable development will not be easy. It is important therefore that these all be represented on the group of experts' to be constituted under articles 255-257 of 'The Future we Want'.

See Chapter 5, p.17

The issues under consideration in the present discussion paper, especially their translation into practice so as to step up the provision of finance for sustainable development, require some expertise.

The UNEP Finance Initiative will continue to support efforts towards a more sustainable financial sector, both on a country level and at the global level, and stands ready to assist policy makers by providing some of the expertise it has developed over time.

Moreover, on the occasion of its 2013 Global Roundtable, to be held in Beijing, China on the theme of 'Financing the Future we Want', the Initiative will launch the first ever report on the Global State of Sustainable Finance.

> *'By investing in people and clean technologies, we can create jobs and finance sustainable development'*
>
> Ban Ki Moon, Secretary General, United Nations
> (Remarks to the special high-level meeting of ECOSOC with the Bretton Woods Institutions, the WTO and UNCTAD, 12 March 2012)

I. Introduction

1. Definitions: Financing Sustainable Development is Broader than ‘green’ or ‘development’ Finance

In June 2012 the Rio+20 Summit delivered ‘The Future We Want’, a declaration outlining core areas of focus to deliver sustainable development. The section of this document devoted to the ‘means of implementation’, specifically the subsection on financial resources, includes three paragraphs establishing the launch of an intergovernmental process aiming at the development of a Sustainable Development Financing Strategy.

Paragraph 255-257, ‘The Future We Want’, June 2012.
255. We agree to establish an intergovernmental process under the United Nations General Assembly, with technical support from the UN System, and in open and broad consultation with relevant international and regional financial institutions and other relevant stakeholders. The process will assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks, and evaluate additional initiatives, with a view to prepare a report proposing options on an effective Sustainable Development Financing Strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives.
256. An intergovernmental committee, comprising thirty experts nominated by regional groups, with equitable geographical representation, will implement this process, concluding its work by 2014.
257. We request the General Assembly to consider this report and take appropriate actions.

Why this discussion paper by UNEP FI?

The United Nations Environment Programme Finance Initiative (UNEP FI), a global partnership between UNEP and the global financial sector, established in the context of the 1992 Earth Summit, is the United Nations’ only dedicated partnership with the financial sector.

UNEP FI presented a Position Paper on Rio+20 that exposed the role of the financial sector in achieving sustainable development and the need for engagement and collaboration between policy-makers and financiers at the highest levels (see annex). Based on this original contribution to the Rio+20 Zero Draft, UNEP/UNEP FI see in paragraphs 255-257 a unique opportunity for a profound reflection and action on finance and sustainable development.

In the eyes of the Initiative and its members, the development of a global strategy on the financing of sustainable development must necessarily take a holistic approach, one that will lead to durable solutions. As such thought must be given not just to the financing of a narrowly defined set of ‘sustainable development projects’, but, more broadly, to encouraging a financial system and financing models that assist in the process of making all activities more sustainable. In essence, ‘Changing Finance’, and Financing Change.

The present discussion paper aims to build on this precept to offer some of UNEP FI’s perspectives and thoughts on what it will take to finance sustainable development, based on years of work in the field of sustainable finance in the framework of the United Nations, and to thereby contribute to the global discussion on the development of a Sustainable Development Finance Strategy.

Naturally, our views draw both from the Initiative’s direct work and experience, and from that of the robust and growing community of sustainable finance institutions and networks that have come into being over time.

II. A Vision for Financing Sustainable Development

2. Both Public and Private Finance need to be Mobilised

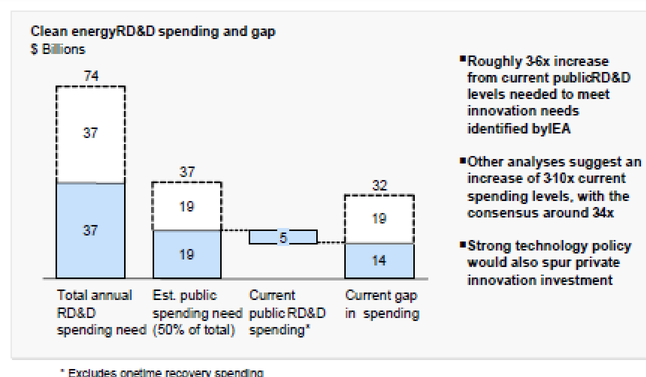
The financing of sustainable development is sometimes corralled as a public/state matter, absolving the private sector of responsibility and limiting its ability to contribute to solutions. As a result solutions to development and sustainability challenges are incomplete - and often expensive.

Public finance policies, for instance taxes, subsidies, and public-sector pricing, are widely seen as the elements that *"can promote an economy wide shift toward more resource and energy efficient technologies".*[3] It has become increasingly clear, however, that current circumstances, where the need for financing increasingly outstrips the funds available, require an even broader, system-wide, response to the financing needs of sustainable development, involving both public and private finance.

It is estimated that the total cost of climate change over the next two centuries under Business as Usual (BAU) emissions includes economic effects and risks that will reduce welfare and are equivalent to an average reduction in global per-capita consumption of at least 5%,[4] while the loss of ecosystems service benefits and biodiversity associated with forest loss worldwide will represent a cost between US $2 to 4.5 trillion per year.[5]

Recent estimations show that investments of around US$ 1.3 trillion (equivalent to 2% of global GDP per year), from 2010 to 2050, across a range of sectors, are required to make our global economy more sustainable. Yet currently, investments in sustainable development are well below 1% of global GDP.[6] As Diagramme 1 shows, even in widely explored domains such as clean energy, there is a significant gap between the financial resources allocated, and those needed to meet real needs.

Diagramme 1: Supply and Demand – The Funding Gap



Source: IEA, 2009. *Global Gaps in Clean Energy Research, Development, and Demonstration*. Available at http://www.iea.org/papers/2009/global_gaps.pdf.

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[3] Bradley, Theresa, World Resources Institute, 1998, Public finance restructuring for sustainable development in emerging market economies. See http://pdf.wri.org/publicfinancerestructuring_bw.pdf

[4] Stern, Nicholas, 2006. Stern Review: The Economics of Climate Change. Executive Summary. See http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1170911056314/3428109-1174614780539/SternReviewEng.pdf

[5] TEEB, 2008, The Economics of Ecosystems and Biodiversity: Interim Report. See http://www.teebweb.org/InformationMaterial/TEEBReports/tabid/1278/Default.aspx

[6] UNEP, 2011, Green Economy Report – Finance: Supporting the transition to a global green economy. See http://www.unep.org/greeneconomy/Portals/88/documents/ger/15.0_Finance.pdf

In view of the magnitude of resources needed to finance sustainable development, it is now widely argued that *"public finances alone will not be sufficient to close the funding gap. As a result, many new government funding programs are predicated on mobilizing and leveraging private sector investment",*[7] *often referred to as innovative financing models*.

Reassuringly perhaps, the magnitude of the overall financial system suggests that there is no shortage of financial resources per se – the banking sector alone is estimated at US$ 13 trillion, with shadow banking[8] estimated at a further US$ 16 trillion[9]. By comparison, world GDP was, over the past 12 months, about US$ 65 trillion and estimated numbers project that by September 2013, the global output will be about US$ 10 trillion bigger.[10] The question, of course, is how can capital be channelled to the 'right' places?

The present discussion paper contends that in addition to public finance, a significant proportion of the financial means necessary to deliver sustainable development can be mobilized directly 'from within', using the current financial system itself.

Building on previous UNEP FI research,[11] this Paper will argue that, upon closer scrutiny, there are a variety of gaps, barriers and misaligned incentives acting upon the financial system, which result in a misallocation of capital, that is, allocation of financial resources and services to activities and undertakings that are not in accord with the principles of sustainable development, as well as an under-allocation of capital to those activities which, on the contrary, promote sustainable development.

> *"In my understanding, the financial system performs a key role in channelling resources and inducting good social and environmental practices in economy."*
>
> Alexandre Tombini, President, Brazilian Central Bank, speaking at Rio +20, Rio de Janeiro, 13 June 2012

It will further seek to suggest that these can be removed, often at a low political and economic cost to governments and the international community. And that as a result, their removal should constitute a core part of any global strategy for the financing of sustainable development.

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[7] Deloitte, 2012, Financing the Future: designing public funds to mobilize private investment in sustainable development. See http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Sustainability%20and%20Climate%20Change/dttl_scc_FinancingtheFuture%20_June%202012.pdf

[8] *'The system of credit intermediation that involves entities and activities outside the regular banking system'*. Financial Stability Board, 2011.

[9] Financial Times, 2010. See http://www.ft.com/intl/cms/s/0/1a222bf4-f33d-11df-a4fa-00144feab49a.html#axzz23nB0wzaX.

[10] The Economist and IMF, 2012. See http://www.economist.com/blogs/dailychart/2011/05/world_gdp

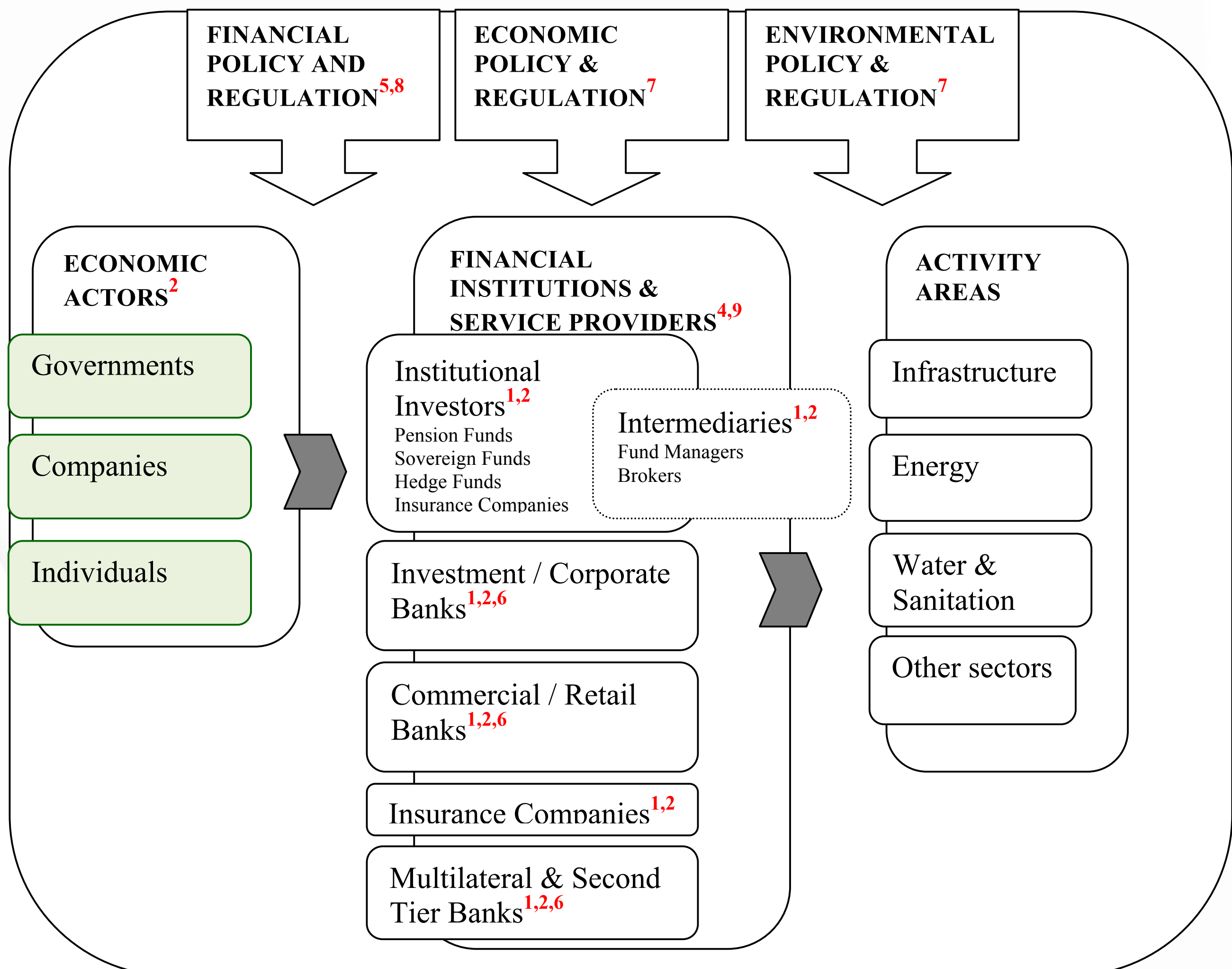
[11] 'UNEP FI/IISD, 2012, Financial Stability and Systemic Risk: Lenses and Clocks. See http://www.unepfi.org/fileadmin/documents/Lenses__Clocks_web.pdf

3. Private Sector Mobilisation Hinges on the Removal of Key Gaps, Barriers and Misaligned Incentives

As raised in the previous section, if the scale of financing needed to achieve sustainable development is to be mobilised there are a number of gaps, barriers and misaligned incentives that need to be duly identified/addressed. Diagramme 2 and the list below it seek to provide an overview of the players involved, and to pinpoint just a few of the issues that prevent sustainable development concerns from being part and parcel of 'normal' financial sector activity and as such, restrain the financing of sustainable development.

The aim of this section is not to provide a comprehensive list of issues to be addressed, or to deliver solutions. Rather, it is to illustrate the need for consideration of the structures and motivations of the financial system in seeking to mobilise finance for sustainability.

Diagramme 2: The Financing Ecosystem



Information & Knowledge Gaps

1. **Financial analysts** are lacking sufficient and appropriate sustainability information on which to effectively base investment decisions.
   While there is a wealth of information available to investors on financial performance of companies, there is only scant and hard to compare data on their sustainability performance, making more long-term oriented decision-making difficult. No global standard is in place for sustainability reporting, despite evidence of it improving company performance.[12] To date sustainability reports are neither mainstream nor ideally constructed, availability of basic information on environmental licenses and fines are not always readily available, and credit rating agencies so far do not take sustainability matters into account. [13]

2. **Customers of financial institutions**, whether public or private, often have limited / no information on financial institutions' role in and management of sustainability issues.
   While goods and services of all types are increasingly subject to standards and regulation requiring appropriate consumer/client information and transparency on environmental and social issues, there is often limited or no information on the sustainability impacts of financial products and services. Without such information, responsible financial institutions receive no benefit and differentiation between sustainable and non-sustainable financial products and services by end-users remains difficult.

'… despite all the progress that has been made, more than a third of businesses still do not have a sustainability strategy in place. Of those that do, only one in three is reporting publicly on their progress.'

(KPMG International. Corporate Sustainability: a progress report, 2011)

3. **Finance sector practitioners professionals** and other key decision-makers such as pension fund trustee boards do not always have an understanding of sustainability issues.
   Knowledge and understanding within financial institutions is in many cases still limited, and tends to be concentrated in a relatively small proportion of the work-force.[14] This implies challenges in truly mainstreaming sustainability concerns into decision-making processes. For such mainstreaming to occur, awareness and knowledge needs to be built up across different practitioner profiles, from credit and compliance to analysts, brokers and relationship managers.[15]

Market Barriers

4. **Financial service providers** still often harbour a business as usual perception and do not see the potential or indeed the necessity of financing sustainable development.
   The risks associated with new technologies and/or operating in developing countries due to the lack of financial instruments (e.g. de-risking tools) to operate in this context, mean that despite the emergence of asset classes referred to as 'impact finance' or 'impact investing', 'sustainable development' financing activities still have difficulty in imposing themselves over more traditional, and less sustainable market areas.[16]

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[12] KPMG, 2011, KPMG International Survey of Corporate Responsibility Reporting 2011. See http://www.kpmg.com/PT/pt/IssuesAndInsights/Documents/corporate-responsibility2011.pdf

[13] UNEP FI/IISD, 2012, Financial Stability and Systemic Risk: Lenses & Clocks. See http://www.unepfi.org/fileadmin/documents/Lenses__Clocks_web.pdf

[14] IFC, 2007, Banking on Sustainability: Financing environmental and social opportunities in emerging markets. http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_BankingonSustainability/$FILE/FINAL_IFC_BankingOnSustainability_web.pdf

[15] Wood, David; Youngdahl, Jay. (2011). Public Pension Fund Trustees and Fund Culture: Responsible Investment and the Trustee Leadership Forum. IRI Working Paper. See http://hausercenter.org/iri/wp-content/uploads/2012/05/UNPRI-Youngdahl-Wood-Working-Paper.pdf

[16] UNEP FI, 2012, Financing renewable energy in developing countries: Drivers and barriers for private finance in sub-Saharan Africa in Africa. See http://www.unepfi.org/fileadmin/documents/Financing_Renewable_Energy_in_subSaharan_Africa.pdf

5. **Finance regulations** put in place following the financial crisis are in some cases acting as a barrier to further financing and investing in sustainable development.

Indeed the so-called Basel III package[17] seeks to shield the financial system from systemic risk and promote long-term sustainability, however, the significantly increased capital requirements made under this piece of regulation may be running counter to this goal. Some argue that the very high "risk weights" on project finance, which is of great importance for the financing of sustainable development, mean that such finance is drying up at the very time it is most needed. A similar trend can be observed in the insurance business, which, in the European Union is subject to the regulation package known as Solvency II.[18] Updated in the wake of the 2008 financial crisis to include risk-based solvency requirements, Solvency II has raised concerns on the insurance sector's availability to support sustainable infrastructure projects and to play its key role as a risk carrier key for disseminating key technologies.

6. **Multilateral & Second Tier Banks'** financing activities and those of commercial banks are not always ideally coordinated to maximize the financing of sustainable development projects.

While public and private financial institutions are increasingly working together (and a number of multilaterals and second-tier banks are using their leverage on client / partner commercial banks to transmit sustainability paradigms, methodologies and tools),[19] coordination between multilateral banks, large transnational banks, local development banks and commercial banks is not always ideal. Sustainability financing could be made more effective and abundant by actively promoting a complementary approach at country level.

'Investors will seek every sound investment opportunity, but until governments establish policies and rules that make low-carbon strategies the clear strategic choice for all businesses, we [investors] will not be able to deploy capital into low-carbon investments at the scale required.'

(Investor Statement on Catalyzing Investment in a Low-Carbon Economy, 2010)

[17] Bank for International Settlements, 2010, Basel III: A global regulatory framework for more resilient banks and banking systems. See http://www.bis.org/publ/bcbs189.pdf

[18] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:0001:0155:EN:PDF

[19] IFC. International Finance Corporation Sustainability Framework. See http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/

Misaligned Incentives

7. **Economic and environmental policy frameworks and regulations** do not always promote sustainable activities over those that fail to serve the cause of sustainable development.
Many 'harmful subsidies' remain in place, while sustainability targets, which are helpful in entrenching new approaches are not always in place. A number of positive incentives, such as feed-in-tariffs have actually been slackened before achieving market maturity (e.g. solar).[20] Such broader policy signals are vital in ensuring that finance be mobilised at scale.[21]

8. **Financial policy-makers and regulators** are failing to communicate a clear sustainability position which all players of the system can work towards.
Banks, for instance, are subject to the Basel Committee's prudential regulation, and in particular the so-called Basel III package.[22] While inviting banks to protect themselves from all 'material risks', it stops short of spelling out environmental and social risk, missing an opportunity to send a strong signal on the need for proper sustainability management. Institutional Investors face a policy/legal gap of their own: the interpretation of fiduciary duty often remains narrow, excluding sustainability considerations. Indeed, there remains a body of investors who believe that addressing sustainability concerns runs counter to their fiduciary duties, understood first and foremost as the financial performance of the assets they guard and manage on behalf of their beneficiaries.[23]

…'evidence suggests short-termism is both statistically and economically significant in capital markets. It appears also to be rising. […] The long is short. Investment choice, like other life choices, is being re-tuned to a shorter wave-length. Public policy intervention might be needed to correct this capital market myopia.'

The Short Long, Andrew G Haldane & Richard Davies, May 2011

9. **Financial sector** corporate culture, in some respects, can be conducive to short-term rather than long-term thinking and decision-making.
Certain traditions, such as investment/corporate banking activities remaining subject to the tradition of quarterly reporting, are suspected of being a perpetrator of short-term decision-making.[24]The fact that salaries and rewards of financial institution personnel is often dependant on a definition of performance that does not integrate sustainability concerns is also seen by some as a misaligned incentive.[25]

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[20] UNEP, 2011. Towards a Green Economy: Pathways to sustainable development and poverty eradication. See http://www.unep.org/greeneconomy/Portals/88/documents/ger/GER_synthesis_en.pdf
[21] 2010 Investor Statement on Catalyzing Investment in a Low-Carbon Economy - Investors Urge Policymakers to Act Swiftly. See http://www.unepfi.org/fileadmin/documents/14jan_investor_statement.pdf
[22] Ibid. 17.
[23] UNEP FI, 2009, Fiduciary Responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment (see http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf) & UNEP FI, 2005, A legal framework for the integration of environmental, social and governance issues into institutional investment (see http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf).
Fair Pension, 2012, The Enlightened Shareholder - Clarifying Investors' Fiduciary Duties. See http://www.fairpensions.org.uk/sites/default/files/uploaded_files/policy/EnlightenedFiduciaryReport.pdf).
[24] Generation Investment Management, Sustainable Capitalism, February 2012, p.17-18
[25] WBCSD. People matter: Reward. Linking sustainability to pay. 2010. See http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=47&NoSearchContextKey=true
UNPRI, 2012.Integrating ESG issues into executive pay. See http://www.unpri.org/files/Integrating%20ESG%20issues.pdf

These are only a few of the areas where reform could, at little or no cost, open up a much greater supply of finance for sustainability.

While it is hoped that this section will have made evident the need for the engagement of financial policy-makers in defining a strategy for the financing of sustainable development, the following section will seek to highlight current developments and initiatives that seem to be headed in the right direction.

IV. Taking Action: Policy Actions and Promising Developments Across the Globe

4. Good Practice is Already Available

So what can policy makers do to help better align financial sector activities to the needs of sustainable development? Based on the gaps, barriers and misalignments identified in the previous section, it is necessary to consider ways of:

a) Making more and better quality information available to all stakeholders
b) Encouraging and stimulating collaboration between the different financing players that will generate innovative financing solutions
c) Aligning economic, environmental and financial policies and regulations with broader sustainability goals

Below are illustrations of promising developments in various countries, ordered by financial services industry. These represent just a fraction of current practice, meaning that the below list is by no means comprehensive.

Making more and better quality information available to all stakeholders

Brazil: Promoting easy access and availability of information on applicable legislation
Brazilian authorities have put in place databases that publicly provide information on applicable legislation and more specifically on the status of companies' environmental licenses and/or fines.[26] These have proved invaluable to financial analysts who are able to consult the information in real time, and use it to inform their banks' decision-making and interaction with clients.

European Union: Inclusion of non-financial key performance indicators in the annual accounts of companies
European law on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings requires companies, to the extent necessary for an understanding of the company's development, performance or position, to include in the annual review analysis both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. EU Member States can choose to exempt small and medium-sized enterprises from this requirement.[27]

Paragraph 47, 'The Future We Want', June 2012.
Para. 47 acknowledges the importance of corporate sustainability reporting and recognises the role of governments in supporting and encouraging such activity in both developed and developing countries.

Four governments – Brazil, Denmark, France and South Africa – launched the 'Friends of Paragraph 47' to (i) encourage companies to integrate sustainability information into their reporting cycle and (ii) to develop best practice models, considering, in particular, the needs of developing countries.

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[26] Companhia de Tecnologia de Saneamento Ambiental – CETESB (Environmental Sanitation Technology Company) - http://licenciamento.cetesb.sp.gov.br/cetesb/processo_consulta.asp
Fundação Estadual de Proteção Ambiental Henrique Luiz Roessler, RS - FEPAM (State Foundation of Environmental Protection) - http://www.fepam.rs.gov.br/spogweb/e016/pesquisa.asp
Secretaria de Estado do Meio Ambiente, MT - SEMA MT (Secreatary of Environment for the state of Mato Grosso) - http://monitoramento.sema.mt.gov.br/simlam/
Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis – IBAMA (Brazilian Institute of Environment and Renewable Natural Resources) - http://siscom.ibama.gov.br/geo_sicafi/
[27] European Union, 2003, Directive 2003/51/EC of the European Parliament and of the Council. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:178:0016:0022:en:PDF

South Africa: Mandatory disclosure of sustainability information for Stock Exchange listing

Compliance with the King Code on Corporate Governance is a requirement for companies listed on the Johannesburg Stock Exchange.[28] The King Code is a code of corporate governance in South Africa issued by the King Committee on Corporate Governance. Three reports were issued in 1994 (King I), 2002 (King II), and 2009 (King III) to encourage companies to apply the Code's principles and consider the best practice recommendations. All entities should, by way of an explanation, make a positive statement about how the principles have been applied or have not been applied.

USA: Mandatory disclosure on climate change risk

The US National Association of Insurance Commissioners (NAIC) has established a mandatory requirement that insurance companies disclose to regulators the financial risks they face from climate change, as well as actions the companies are taking to respond to those risks.

Encouraging and stimulating collaboration between the different financing players that will generate innovative financing solutions

Global: Establishing a Private Sector Facility for the UNFCCC Green Climate Fund

The Parties that agreed on the establishment of the UNFCCC Green Climate Fund (GCF), in December 2011 at COP-18 in Durban, also recognized the need of a Private Sector Facility (PSF) to help mobilise private sector finance for low-carbon and climate-resilient investment. UNFCCC's estimate that more than 85% of all finance to address climate change will need to come from the private sector and the current state of climate finance flows for mitigation where private financial flows outweigh public financial flows by almost five to one.[29] The first steps towards the creation of the PSF have already been taken and UNEP FI is actively supporting its development.

Kenya: Delivering finance for Kenya's clean energy goals

Kenya's 'Vision 2030' aims to lead the country to an industrialising, middle-income stage by 2030. One of the pillars of action - Enablers and Macro – includes activities that envision transformative change for the energy sector, including expansion of clean energy and energy access. Up to US$ 45 billion in investment are required by 2030 to increase power generation capacity, and a substantial portion of financial resources is expected to be invested in clean energy sources. Led by the World Economic Forum (WEF), in partnership with the world's largest energy companies, international financial institutions, and development finance institutions, the Green Growth Action Alliance (G2A2), was launched to address the shortfall of green infrastructure finance. The Alliance's action includes a dedicated programme aimed at supporting Kenya's efforts to catalyse private sector investment for clean-energy initiatives.[30]

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[28] Institute of Directors Southern Africa (IoDSA). See http://www.iodsa.co.za/HOME.aspx

[29] UNFCCC. Green Climate Fund – report of the Transitional Committee. FCCC/CP/2011/L.9. See http://unfccc.int/resource/docs/2011/cop17/eng/l09.pdf

[30] Unlocking Financing for Clean Energy in Kenya. See http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/international-climate-change/5507-cmci-nairobi-workshop-summary.pdf.

Aligning economic, environmental and financial policies and regulations with broader sustainability goals

EU: Energy efficiency targets and measures

A new EU Directive creates legally binding measures to encourage Member States' use of energy efficient methods along the energy chain, from transformation to consumption. Measures include a right for consumers to know how much energy they consume, the legal obligation to establish energy efficiency obligations schemes or policy measures in all member states and the exemplary role to be played by the public sector. In particular, Article 5 outlines each Member State's obligation from 2014, to ensure that 3 % of the total floor area of heated and/or cooled buildings owned and occupied by its central government is annually renovated to meet at least its minimum energy performance requirements set in application of Article 4 of Directive 2010/31/EU.[31] Furthermore, Article 7 requires each Member State to set up an energy efficiency obligation scheme such that it achieves new national savings of 1.5% of annual energy sales to final customers each year from 2014 to 2020.[32]

Nigeria: Factoring in environmental and social risk

Under the stewardship of the Central Bank, the Nigerian banking sector has developed a set of Nigerian Sustainable Banking Principles. By the adoption of the Principles in July 2012, all banks are now required to manage and mitigate the environmental and social risks associated with their activities and operations. In addition to the Principles, three sector specific guidelines have been adopted on agriculture, power and oil and gas. These guidelines provide additional assistance on the specific environmental and social risks associated with those sectors.[33]

China: Incentivising 'green financing'

In July 2007, the Ministry of Environmental Protection, the China Banking Regulatory Commission and the People's Bank of China launched China's Green Credit Policy.[34] The policy seeks to promote the availability of direct credits for energy conservation and emission reduction. By the end of the first quarter of 2012, the Industrial Bank Co. Ltd, one of the Chinese banks that have adopted the policy, had offered 2,857 green credits with a total value of US$ 20.3 billion. The China Development Bank Corp, for its part, had lent US$ 104 billion by the end of 2011 to support environmental protection, energy-saving and emissions-reduction projects, accounting for 12.7 percent of the bank's total outstanding loans.

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[31] European Commission, 2012, Energy Efficiency Directive, Article 5. See http://ec.europa.eu/energy/efficiency/eed/eed_en.htm and http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0306+0+DOC+XML+V0//EN&language=EN

[32] Ibid Article 7.

[33] Central Bank of Nigeria, 2012, The Nigeria Sustainable Banking Principles. See http://www.cenbank.org/Out/2012/CCD/Circular-NSBP.pdf

[34] IFC presentation. See http://powerpoints.wri.org/gei_book_launch/aizawa_chinas_green_credit_policy_2011-06.pdf, and China Daily. See http://www.chinadaily.com.cn/cndy/2012-02/25/content_14690593.htm

V. Conclusions & Next Steps

5. Where Next? Developing a Collaborative Approach to Sustainable Finance

This brief discussion paper has sought to show that financing sustainable development means both increasing finance for sustainable projects, and making financial actors a partner in turning traditional projects into more sustainable projects.

It has sought to show that, more than creating new structures, financing sustainable development requires the mobilisation and coordination of all current financial actors, hence including the private financial sector.

It has highlighted some of the gaps, barriers and misaligned incentives that currently hinder full scale mobilisation of the financial means necessary to finance sustainable development and pointed to a number of promising practices that are already in existence and could be further promoted and emulated.

From this paper it has hopefully transpired that the cause of sustainable development requires a holistic approach and the coming together of all players, not just public and private finance, but also a broader coming together of environmental, developmental, economic and financial experts.

UNEP and its Finance Initiative will continue to strive to help connect the dots, to facilitate interaction and collaboration.

> *''The difference between what we do and what we are capable of doing would suffice to solve most of the world's problems"*
>
> Mahatma Gandhi

To this effect it is crucial to develop a common basis for understanding, and for this reason, from 2013 the Initiative will strive to deliver regular updates on the status of sustainable finance. It is hoped that this will prove a valuable resource to the group of experts whose task it will be to define a global strategy for the financing of sustainable development.

Much hinges on the definition of an effective financing strategy. At a time when Sustainable Development Goals are about to be defined, it is fundamental that the economic and financial means to underpin humanity's ambitions for a better, sustainable, world be firmly secured. Let's turn sustainability concerns into 'normal' concerns. The New Normal.

Desired outcomes for the Conference

[i]. Highlight the role of the financial sector in achieving sustainable development, in light of its ability to promote the allocation of capital to those businesses and market players operating more sustainably.

[ii]. Incentivise financial institutions to integrate sustainability issues into their risk management policies and overall decision-making procedures, including those relative to the development of new financial products and services, so as to ensure that any potentially adverse sustainability impacts of financial products, services and transactions are duly identified and managed, while positive sustainability impacts are maximised.

[iii]. Promote the availability and accessibility of relevant and comparable sustainability information, as key elements in enabling financial sector decision-making that is aligned with the long-term needs of sustainable development. In particular by:

-Facilitating access to information on relevant sustainability-related norms and regulations, as well as on their enforcement.

-Developing a convention that provides a global policy framework requiring the integration of material sustainability issues within the corporate reporting cycle on a 'report or explain' basis.

-Encouraging the regular evaluation of the sustainability impacts of commercial and residential properties, and calling for the development of a global framework to establish a practicable and meaningful set of metrics and methodologies to facilitate the implementation of such evaluations. This is key in promoting stronger sustainability practices in the development, retrofit and daily management of properties, and in enabling better decision-making by property owners and occupiers, as well as relevant finance sector players.

[iv]. Commit to work closely with the financial sector in building the markets for long-term, sustainable lending, investment and insurance products and services, so as to further promote a financial system that serves sustainable development, and that refocuses financial institutions on their core role in society as unique enablers of the advancement of individuals, companies and nations.

[v]. Call for all UN-embedded and UN-backed partnerships with the financial sector and the broader private sector to work together closely in order to enhance their efforts in making sustainable finance a reality.

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