Financing the future we want

China Emerging Markets & the World Economy

Financing the future we want

Beijing 2013
In the same week that China’s leaders set a new path for economic reform, the world’s premier financial organizations met in Beijing to discuss whether the financial system has the capability to finance the environmental challenges the world faces. At the heart of the talks lies the question of how to realign the financial system to finance a low-carbon, resource-efficient and sustainable path.

Themed, *Financing the Future We Want: China, Emerging Markets and the World Economy*, the 2013 UNEP Finance Initiative Global Roundtable (GRT) asked the following questions of the financial system:

- How can we accelerate the integration of long-term, sustainable thinking into the financial sector’s decision-making processes?
- Who are the key stakeholders and partners for sustainable finance and how can dialogue and collaboration be stepped up between them?
- How can we help players learn from each other and how can we share the rich body of knowledge and experience that is crystallizing in emerging economies?
- What ultimately is the underlying purpose and raison-d’être of finance and financial institutions and can these deliver the financing of the future we want?

Over the two-day event, 400 plus high-level representatives from financial institutions, governments, regulators, civil society, academia and the scientific community discussed the most pressing sustainable development issues for the finance sector to address. Sessions explored a variety of topics, including how to hardwire sustainability into the financial sector, how to make hard science usable for financial decision-making and what value can be created from environmental challenges. After thought-provoking discussions between presenters and participants, consensus around three underpinning factors emerged that focused on leadership, policy and the need for action based on science. The following questions embody these reflections:

**Focus questions for the finance sector**

1. Who should lead in mainstreaming ‘sustainable finance’?
2. How do we formulate, develop, and apply the rules that govern financial markets and the economy, at the global, regional and national levels?
3. What is the scientific consensus saying now?

For each of these focus areas, we have listed the main points and supporting quotes. For further information on the proceedings of the GRT, please visit [www.unepfi.org/grt](http://www.unepfi.org/grt).
1. **Who should lead in mainstreaming ‘sustainable finance’?**

 Governments, policy-makers and other public agents have the key role to play in shifting economic development from a business-as-usual, resource-intensive pattern towards a low-carbon, resource-efficient and sustainable pathway. The impetus needs to start with political leadership.

“Financial Institutions cannot, and for very good reasons, should not do the job of governments”

*Catherine Loh*
Under-secretary for the Environment, Government of Hong Kong

“We need 4 things from Governments to be able to undertake the required re-allocation of capital: 1) A meaningful, and possibly global price on carbon; 2) Financial regulation that is conducive, not detrimental, to long-term finance for sustainable assets, businesses and technologies; 3) A halting of unhelpful subsidies to obsolete and unsustainable technologies and business practices; 4) Supportive incentives, mechanisms, and regulatory frameworks, that are credible and reliable over time”

*Marcel Jeucken*
Managing Director, PGGM

Private sector leadership goes in hand with political leadership and should inform political action and policy development. All too often business actors push governments and legislators to not act on climate change and sustainability, but instead put their efforts into maintaining a profitable yet carbon-intensive path. Countering such efforts, and persuading peers in finance and industry to look out for everyone’s interests can be considered financial sector leadership.

“We can’t wait for Government action; there is not enough time; all sectors and stakeholders, particularly in financial markets and the investment community need to take leadership now”

*Jim Leape*
Director General of WWF

“Some financial actors take a reactive and silent approach and wait for regulation, but as a regional financial institution, we cannot separate the health of our own firm from the health of the community and the environment we operate in”

*Joern Helms*
Vice-President of the Bank of Taizhou
Banks, investors, insurers and other financial actors play a key role in shaping the economy of tomorrow and by applying the right credit, asset and risk allocation policies, they can produce a powerful leverage for the transition to a green economy. However, awareness and capacity of sustainable finance in the financial sector needs to be increased to achieve broader results.

Political leadership on sustainable finance and sustainable development by governments in developing countries is well advanced. For example, China’s Ecological Civilization policy has the potential to transform the Chinese economy and to position China as a leader in greening the global economy. Similar proactive approaches will minimise the implied costs and the risks of disruption to national development.

“Accelerating the development of green economy is China’s strategic need for sustainable development. Supporting the green economy is the social responsibility for all commercial banks, and the inherent requirements promote the transformation of business models and help realize a bank’s own sustainable development”

Zheng Wanchun
Senior Executive Vice President, Industrial and Commercial Bank of China

“If pro-active and preventive, small public investments today can have large impacts in the future”

Michel Lies
CEO, Swiss Re Group
2. How do we formulate, develop, and apply the rules that govern financial markets and the economy, at the global, regional and national levels?

- Both financial institutions and financial regulators have a role to play in delivering sustainable finance and need to work in partnership, rather than ‘impose, command & control’. Financial institutions have a responsibility to seriously engage in regulation that aims to mainstream ‘sustainable finance’ instead of taking a backseat or ‘anti-regulation’ stance. By engaging in the process they will also benefit by creating regulation that is effective, efficient and tailored to the needs of practitioners.

- This should apply to regulators of different kinds (or regulators responsible for different segments of the economy): financial regulators need to liaise with regulators in other key sectors (energy, water, natural resources, transport, and infrastructure) and in the formulation of broader macro-economic, fiscal, trade, labour policies.

“A compliance - based approach is not sufficient to addressing the challenges”

Leona Murphy
Chief Strategy Officer, Insurance Australia Group

- Sound regulation is a key to achieve a broader enabling environment in which the financial system can effectively be aligned to deliver on sustainable development. The Nigeria ‘Sustainable Banking Principles’ is an example of financial regulation development that is ‘inclusive’ and ‘collaborative’. Sustainable development should also become a part of the mandate of regulators of the financial economy, not just the real economy.

- Interaction, dialogue, and the sharing of experiences, best practice, and lessons learnt, needs to happen between regulators in different countries and jurisdictions. ‘Learn internationally, apply nationally’ is a useful motto that will enable governments to formulate the best-possible policies at the national and local levels.

“It is no longer excusable to pursue economic prosperity at the expense of social well-being and environmental degradation”

Sanusi Lamido Aminu Sanusi
Governor of the Central Bank of Nigeria

“We have to positively learn from other experiences, not to reinvent the wheel, this makes the inputs from the Nigerian journey very valuable”

Habil O. Olaka
Chief Executive Officer, Kenya Bankers Association

- UNEP FI is ideally positioned to provide a platform to catalyse cross-player and peer-to-peer dialogue with its strong FI constituency that has been built up over 20 years and that is directly embedded in the UN framework.

“I congratulate UNEP FI on successfully bringing together all the players that are key to financing the future we want”

Sanusi Lamido Aminu Sanusi
Governor of the Central Bank of Nigeria
3. **What is the scientific consensus saying now?**

- Policy-making and regulation should not ignore science but embrace it. Science is key to better understanding environmental trends and it is imperative to listen to and act in accordance with scientific consensus.

> “Science tell us clearly that the price tag for not doing anything today is disaster for the generation of tomorrow”

  **Michel Liès**  
  Group Chief Executive Officer, Swiss Reinsurance Company

> “Why keep on using fossil fuels which will only get expensive, when you can use renewables which will only become cheaper and provide endless supply of energy?”

  **Achim Steiner**  
  Under-Secretary-General, United Nations and Executive Director, United Nations Environment Programme

- Private sector actors, including investors and financial institutions, need to be able to plan ahead: their decisions today are based on expectations of what will happen in six months, two years, five years and beyond. That means that the regulatory frameworks, mechanisms, instruments, incentives and sanctions aimed at steering private sector behaviour in any given direction needs to provide certainty and be credible over relevant time-frames.

> “Stakeholders need to act more comprehensively and cohesively”

  **Michael Wang**  
  CCTV Anchor
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