Creating Financial Sector Momentum Towards the UN Sustainable Development Goals (SDGS) & COP21

The Role, Potential and Needs of the Financial System in Meeting the SDGs and Climate Change Ambitions
Introduction to SDGs & COP21

Hugh Wheelan
Managing Editor
Responsible Investor
2015 MAY BE A SUSTAINABLE FINANCE TIPPING POINT

Jul 2015, Addis Ababa
Financing for Development Conference

Sep 2015, New York
UN Sustainable Development Summit 2015

Dec 2015, Paris
UN Climate Change Conference COP21
193 nations adopt a new sustainable development agenda to 2030

“...call on all businesses to apply their creativity and innovation to solving sustainable development challenges”
Objective of COP21
Universal and meaningful climate change agreement

Success of the SDGs, closely tied to success of COP 21
• Confirms political will
• SDGs undermined by climate change
‘Reboot’ of development finance

Acknowledging the important role of private finance in sustainable development
Opening Message

Achim Steiner
UNEP Executive Director and
Under-Secretary-General of the United Nations

Christiana Figueres
Executive Secretary
United Nations Framework Convention on Climate Change (UNFCCC)
Part 1: Coming out from the UN Sustainable Development Goals (SDGs) agreement
Financial Industry Perspectives

Saker Nusseibeh
CEO, Hermes Investment Management

Séverin Cabannes (video address)
Deputy Chief Executive Officer, Société Générale

Namita Vikas
Chief Sustainability Officer, Yes Bank
Creating Financial Sector Momentum Towards the UN Sustainable Development Goals (SDGs)

Namita Vikas
Senior President & Chief Sustainability Officer
Findings from the UNEP Inquiry into the Design of a Sustainable Financial System

Nick Robins
Co-Director
UNEP Inquiry into the Design of a Sustainable Financial System
The Financial System We Need
Aligning the financial system with sustainable development

Nick Robins, UNEPFI, Paris October 2015
INQUIRY: key insights

**A systemic approach:** Financing for sustainable development can be delivered through measures focused on the financial system, as well as the real economy.

**A quiet revolution:** A growing number of policy innovations have been introduced by both developing and developed countries, demonstrating how the financial system can be better aligned with sustainable development.

**A moment of opportunity:** Systematic national action can now be taken to shape a sustainable financial system, informed by current trends and complemented by international cooperation.

[Source Inquiry, 2015]
THE INQUIRY: mandate and approach

MANDATE
Advance policy options to improve the financial system’s alignment with sustainable development

FOCUS
Financial system rulemakers – ministries, central banks, regulators, standard setters
Dynamic between market and policy approaches

ANALYSIS FRAMEWORK
Understanding the rationale for action

FINDINGS
Focusing on country experience and sector priorities

NEXT STEPS
Recommendations for national action and international collaboration

FRAMEWORK FOR ACTION
Packages of policy proposals

TOOLKIT
38 approaches in four clusters

Upgraded governance
RECEIVING WISE COUNSEL

ADVISORY COUNCIL

Kathy Bardswick
CEO, The Cooperators, Canada

Naina Kidwai
Group General Manager & Country Head, HSBC India

Maria Kiwanuka
Minister of Finance, Government of Uganda

Rachel Kyte
Group Vice President, World Bank

Jean-Pierre Landau
Former Deputy Governor, Banque de France

John Lipsky
Former Deputy Managing Director, IMF

Nicky Newton-King
Chief Executive, Johannesburg Stock Exchange

Bruno Oberle
State Secretary & Director of Swiss Federal Office for the Environment

Murilo Portugal
President, Brazilian Bankers Federation

David Pitt-Watson
Co-Chair UNEPFI

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Governor, Central Bank of Bangladesh

Neeraj Sahaj
Former President, S&P Rating Services

Rick Samans
Managing Director, WEF

Andrew Sheng
Distinguished Fellow, Fung Global Institute

Anne Stausboll
CEO, CalPERS

Lord Adair Turner
Former Chair, Financial Services Authority, UK
FOCUS ON PRACTICE

China
People’s Bank of China Development Research Centre, IISD

South Africa
Bankers Association
Global Green Growth Institute
Johannesburg Stock Exchange

Brazil
Bankers Federation
Fundação Getulio Vargas

Bangladesh
Bangladesh Bank, Council on Economic Policies

India
FICCI, NIPFP

France
2 Degrees Initiative, France
Strategie, l4CE

US
CalPERS, SAIS

Canada
The Cooperators, CIGI

Canada
The Cooperators, CIGI

Netherlands
Ministry of Environment
Utrecht Sustainable Finance Lab

Switzerland
Federal Office of Environment

UK
Bank of England,
CISL, Oxford University

Colombia
Ministry of Finance
IFC

Brazil
Bankers Federation
Fundação Getulio Vargas

Kenya
Bankers Association
Central Bank
IFC

Indonesia
Financial Services Authority (OJK)
IFC, ASRIA

[Source Inquiry, 2015]
# A Systemic Challenge

**T**oo much of this: too much pollution, too many fossil fuels.

**N**ot enough of this: not enough green energy, green infrastructure, green agriculture.

## Critical Challenges

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$16 trillion</strong></td>
<td>Annual global investment: all needs to be green and resilient</td>
</tr>
<tr>
<td><strong>US$ 5-7 trillion</strong></td>
<td>Annual investment needed for sustainable development goals: e.g. in infrastructure, energy, agriculture</td>
</tr>
<tr>
<td><strong>US$ 7 trillion</strong></td>
<td>Annual environmental externalities: need to be costed into decision making</td>
</tr>
<tr>
<td><strong>US$ 6 trillion</strong></td>
<td>Reduction in fossil fuel and power investment need (2015-2030)</td>
</tr>
</tbody>
</table>

[Source Inquiry, 2015]
## ALIGNING THE SYSTEM

### FINANCIAL ASSETS & ACTORS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>US$135 tn</td>
</tr>
<tr>
<td>Bonds</td>
<td>US$100 tn</td>
</tr>
<tr>
<td>Equities</td>
<td>US$70 tn</td>
</tr>
<tr>
<td>Investors</td>
<td>US$100 tn</td>
</tr>
<tr>
<td>Insurance</td>
<td>US$29 tn</td>
</tr>
</tbody>
</table>

### PRIORITIES FOR ALIGNMENT

- **Real economy regulation & pricing**
- **Mobilising public spending**
- **Action within the financial system?**

### REASONS FOR ACTION IN THE FINANCIAL SYSTEM

- **Managing risk**
  - Inadequate risk management in the financial system may exacerbate environmental & social externalities

- **Promoting innovation**
  - Upgrading the standards and regulations required to catalyze investment, for example, in bond markets

- **Strengthening resilience**
  - Environmental factors can pose risks to assets and system stability

- **Ensuring policy coherence**
  - Ensuring coherence between financial regulation and wider goals, such as long-term investment, access to finance, environmental security.

[Source Inquiry, 2015]
**FINDINGS: ‘a quiet revolution’ - 100+ measures globally**

<table>
<thead>
<tr>
<th>Diverse starting points</th>
<th>Measures in practice</th>
<th>Levers for action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial inclusion, greening industry</td>
<td>Integration in prudential banking regulation</td>
<td>Enhancing market practice</td>
</tr>
<tr>
<td>Air pollution</td>
<td>New investor reporting requirements on climate</td>
<td>Harnessing the public balance sheet</td>
</tr>
<tr>
<td>Infrastructure investment</td>
<td>Coordinated roadmap led by regulator</td>
<td>Directing finance through policy</td>
</tr>
<tr>
<td>Post-crisis rebuilding of trust in finance</td>
<td>Financial sector compact</td>
<td>Transforming culture</td>
</tr>
<tr>
<td>Climate change</td>
<td>Incentives for clean energy bonds</td>
<td>Upgrading governance</td>
</tr>
</tbody>
</table>

(Source: Inquiry, 2015)
**CHINA: Greening the financial system**

**Green investment needs:** US$400bn p.a to finance green investment; only 15% from public sources.

**Green financial system:** The People’s Bank of China co-authored a set of proposals with the Inquiry on closing the gap: green bonds, green ratings, lender liability, environmental insurance, stock market disclosure.

**International cooperation:** Exploring areas of cooperation in green finance ahead of G20 in 2016, with Bank of England and Inquiry.

"Greening a country’s financial system is not an “additional” performance requirement but concerns the efficiency and effectiveness of the whole system.”

Development Research Council of the State Council, China
UK: Prudence, stability and green finance

**Fiduciary Duty:** Law Commission review clarified that material sustainability factors part of prudent investing.

**Prudential Regulation:** The PRA has examined the impact of climate on safety and soundness of insurance companies: physical, transition and litigation risks.

**Green Finance:** The Green Investment Bank instrumental in creating a new class of ‘renewable investment trusts’

“The central bank time horizon is relatively short. But the real challenges to prosperity and economic resilience from climate change will manifest well beyond this. We face a ‘tragedy of horizons’.” Mark Carney, Governor, Bank of England
**FRAMEWORK FOR ACTION: Tools, policies and governance**

<table>
<thead>
<tr>
<th>Tools</th>
<th>Policy packages</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enhancing market practice:</strong> Disclosure, responsibilities, product criteria</td>
<td><strong>Banking:</strong> Extend risk based governance, improve access, enhance culture</td>
<td><strong>Principles</strong> for a sustainable financial system</td>
</tr>
<tr>
<td><strong>Harnessing public balance sheet:</strong> Fiscal incentives, public institutions &amp; central banks</td>
<td><strong>Bonds:</strong> scale up green bonds, extend credit analysis</td>
<td><strong>Compacts and pathways</strong></td>
</tr>
<tr>
<td><strong>Directing finance through policy:</strong> Priority sectors, regulatory calibration, liability frameworks</td>
<td><strong>Equities:</strong> market disclosure, sell-side research</td>
<td><strong>Policy and legal frameworks</strong></td>
</tr>
<tr>
<td><strong>Transforming culture</strong> Capacity building, financial behaviour, market structure</td>
<td><strong>Investment:</strong> Pensions governance, transparency and incentives</td>
<td><strong>Regulatory mandates</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Insurance:</strong> Access, prudential governance &amp; investment role</td>
<td><strong>Performance measurement</strong></td>
</tr>
</tbody>
</table>

[Source Inquiry, 2015]
**NEXT STEPS:** Acting nationally and internationally

**SYSTEM LEVEL COLLABORATION**
- Principles
- Disclosure convergence
- Sustainability stress test
- Fiscal measures optimisation
- Performance framework

**NATIONAL COMPACTS & PLANS**
- Diagnostic & metrics
- Build coalition
- Assess options
- Design pathway
- Implement and learn

**SECTOR LEVEL COLLABORATION**
- Global banking standards
- Code on investor duties
- Coalition for greening debt & capital markets
- Guidance for insurance regulators

**INTERNATIONAL COLLABORATIVE RESEARCH ALLIANCE**
INQUIRY LIVE  www.unepinquiry.org

Global Report
(English + 6 languages)

Policy Summary

Country research

Thematic reports

Working papers

[Source Inquiry, 2015]
**A systemic approach:** Financing for sustainable development can be delivered through measures focused on the financial system, as well as the real economy.

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For more information

www.unep.org/inquiry/

@fininquiry

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General  Inquiry@unep.org

[Source Inquiry, 2015]
Part 2: Going into COP21
Response from UNEP FI

Karsten Löffler
Managing Director, Allianz Climate Solutions and Chair of UNEP FI’s Climate Change Advisory Group (CCAG)
Panel Discussion

Mats Andersson - CEO, AP4

Paul Simons - Deputy Executive Director, International Energy Agency (IEA)

Christian Thimann - Member of the Executive Committee and Group Head of Strategy & Public Affairs, AXA

Jean Boissinot - Head of Banking and Financial Sector Analysis Division, Finance Department, Direction Générale du Trésor