



Sustainable finance: a collective responsibility

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About UNEP FI

Since 1992: UN – FI partnership on understanding, integrating and promoting sustainability in financial market

2013: more than 220 members from banking, investment and insurance

32% members are EU-based

Committed to implement ***UNEP Statement by Financial Institutions on the Environment & Sustainable Development***



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Financing for Sustainable Development

The Need: 2% of global GDP (\$1.3 trillion) to kick start a green economy (UNEP)

The Supply: well below 1% of global GDP

Ways to finance sustainable development:

- **ODAs:** OECD = \$133.5 billion (10% of the need)
- **Fiscal policy reforms:** eg. tax environmental “bads” and give incentives to environmental “goods”
- **Public Private Partnerships:** Use public finance to leverage private finance (best leverage ratio = 5:1)

Trying to fit a square peg into a round hole?



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UNEP FI & the global sustainable finance agenda

Common understanding of ‘**sustainable finance**’ in UNEP FI:

- **Change finance:** Paradigm shift. System-wide change to embed sustainable development within the financial market
- **Finance change:** Mobilization of private funds for sustainable development

Public-private cooperation crucial to both change finance & finance change



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Why we need to Change Finance

- **Business-as-usual:** Sector lacks understanding of potential/necessity to finance sustainable development.
 - Only 7% of global investments under ESG considerations (2009)
 - Absolute growth of coal still faster than renewables despite 17% growth (2011)
 - \$19 trillion/yr investment in fossil fuel extractives to 2020
- **Short-termism:** Dominance of S-T corporate culture lead by dramatic growth of proprietary/speculative trading.
 - US average stock holding period: 8 yrs (1960) to 5 days (2012)

Impact: Heavy discounting of L-T risks & opportunities

- Higher cost of L-T investments
- Allow businesses to make poor L-T decisions



Institutionally Fossilist policy/regulatory environment?

- Lack of stable sustainable development policies & regulatory frameworks
- Lack of consideration of sustainability issues in financial policy & regulation
 - Subsidies on fossil fuel = \$523billion, renewables = \$88 billion
 - Capital/liquidity requirements under Basel III/EC's Solvency II feared to drive up cost of "risky" L-T investments

Creating a financial market that is *"institutionally fossilist – pervasively biased against clean energy and clean infrastructure investment in favour of incumbent technologies"*.

Michel Liebreich, Chief Executive, Bloomberg New Energy Finance



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Unburnable Carbon

The next financial crisis?

- Sustainable financial practices support financial stability
- Ignoring sustainability issues is ignoring a big part of the risk landscape
 - \$674 billion invested in fossil fuel industry (2012)
 - Financial value of the industry based on proven fossil fuel reserves
 - Of which only 20% burnable to 2050 to meet 2 °C warming target (Carbon Tracker)

Are investors sitting on a pile of unrealizable assets?



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Public-private cooperation crucial to Changing Finance & Financing Change



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Highlights at international level

Government engagement

- « The Future We Want », Rio+20 Outcome Document
 - § 255 - 257: towards the design of a Sustainable Development Financing Strategy; will only be relevant with FI involvement
 - § 47: Corporate Sustainability Reporting;
Access to meaningful ESG information

Finance community engagement

- Principles for Sustainable Insurance: global principles for insurance, signatories more than 10% of world premium volume
- Sustainable Stock Exchanges Initiative: exchanges listing over 4,600 companies commit to promoting sustainability
- Natural Capital Declaration: 40 FIs commit to natural capital



Highlights at **national level**

Banking in focus

- **Working with Central Banks - improve their understanding of sustainability → mainstream sustainability within the sector**
 - **Green Sustainable Banking Principles in Nigeria**
- **Emerging national frameworks on sustainable finance:**
 - **Green Protocol Colombia, Green Protocol Brazil, Green Banking Policy in Indonesia, Green Credit policy in China**
- **Engaging the finance industry in the policy-making process early to make it relevant for the industry**
- **Dialogue with peer finance institutions through Banking Associations or similar structures – knowledge makes you stronger**



Reaching out to **European institutions**

Messages to the European Commission:

- EC Resource Efficiency (RE) Finance Roundtable, Feb. 2013
- EC Consultations on the Green Paper on the Long-Term Financing of the European Economy, June 2013
 - Economic policy and innovative public-private financing mechanisms are key
 - Removing barriers to long-termism and re-aligning incentives with the goals of sustainable development are just as key but receive much less attention
 - A systemic change of the finance system is required - creating a 'new normal' in financing for and green, inclusive growth
 - Need for long-term funds mobilized consistently with the sustainable goals of Europe 2020



Reaching out to **European institutions**

Messages to the European Commission:

UNEP FI broader engagement on non- financial disclosure

- *GHG Protocol Scope 3 on « **Financed Emissions** » (UNEP FI's project with GHGP)*
- *Sustainable Stock Exchange Initiative (co-convened by UNEP FI)*
- *'Friends of §47' Initiative (UNEP co-secretariat)*
- *International Integrated Reporting Council (Advisory Council and Working Group member)*
- *Global Reporting Initiative (WG member in the G4 development)*



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What is the **way forward**?

While achievements are many to this date...

- Standards set for investors and insurance, guidance for banks
- A pool of knowledge created on ESG risks and opportunities
- More awareness, bigger network every year

... and efforts to overcome traditional challenges continue...

- Working with the industries on standard implementation
- Analysing barriers and incentives to ESG integration
- Facilitating peer-to-peer knowledge

... a new angle is needed to move the debate forward

- Is sustainability discussed separately by actors of society?
- Sustainable development policy making needs to include finance institutions and « mainstream » policy-makers and regulators



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UNEP FI Global Roundtable 2013

Financing the **future** we **want**

China, Emerging Markets
and the World Economy

Beijing 2013
12-13 November



www.unepfi.org/grt

Thank You!

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