Sustainable finance: a collective responsibility

Yuki Yasui
Acting Head
United Nations Environment Programme
Finance Initiative

26 June 2013, Brussels
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
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?
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
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 = $523 billion, 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
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?
Public-private cooperation crucial to Changing Finance & Financing Change
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
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)
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
Unev 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!

Yuki Yasui
Acting Head
Yuki.Yasui@unep.org

Annie Degen
Focal point for Long-Term Finance
Annie.Degen@unep.org

United Nations Environment Programme
Finance Initiative
http://www.unepfi.org/