CEOs, Presidents, and Board Chairs of banks and insurers in UNEP FI’s governance bodies discussed financial sector challenges in aligning economies with sustainable development goals during the third meeting of the Leadership Council in December 2023. The purpose of the meeting was to inform strategic priorities for UNEP FI and actions for finance leaders in 2024.

UNEP FI’s Leadership Council focussed on two areas—reforms of the International Financial Architecture (IFA) aimed at leveraging private finance globally for sustainable development and climate action and private sector policy and regulation for sustainable economies.

The meeting followed on the heels of the 28th UN Climate Change Conference of the Parties (COP 28). Inger Andersen, UN Under-Secretary-General (USG), UNEP Executive Director, and Chair of the Council, said the final outcome sent a signal to markets that the world’s energy systems will transition away from fossil fuels, alongside commitments to triple renewable energy capacity and double the global average rate of energy efficiency improvements by 2030. However, while net-zero pledges now cover about 80% of global emissions, G20 countries are not yet reducing emissions at a pace consistent with these decarbonisation targets.

USG Andersen told finance leaders that they have the power to set high ambitions in the industry and translate those into the transformation required. With more than USD 400 trillion under management, the financial sector has a role as an intermediary in mobilising the USD 7.5 trillion required annually to achieve the Sustainable Development Goals (SDGs), including the net-zero and clean energy transition.

“As finance sector leaders, you have the power to set a high ambition in the industry and translate that into the transformation needed.”

Andersen also highlighted the need for the finance industry to ensure resilience to the physical impacts of climate change, not only of their clients and ‘discrete’ assets but also that of the overall ‘landscape’ within which those clients and assets operate. Alongside climate, we also need to address the nature and pollution crises, she said.
What the Council can expect of UNEP FI in the year ahead

UNEP FI’s work programme will include the following priorities:

1. Increase access to science-based information for financial institutions and regulators to support policy and client engagement.

2. Help the finance industry with the harmonisation of sustainable finance standards by convening members in working groups, networking with mainstream standard setters, and promoting wider adoption of such standards.

3. Engage in and contribute to multilateral platforms to promote pragmatic, harmonised, interoperable, and coherent sustainable finance policy and taxonomies across jurisdictions, documenting policy and regulatory developments needed to align finance with sustainability objectives.

4. Undertake regional engagement with policymakers and regulators on the latest global developments in sustainability, assisted by capacity building on the experiences and challenges of implementation.

5. Support financial institutions on sectoral transition planning to implement climate targets.

6. Develop tools for climate and nature risk management.

7. Provide guidance, technical assistance, and capacity building to embed sustainability in financial institutions’ processes and support stakeholder engagement for sustainable development outcomes.

8. Facilitate dialogue between public and private finance actors and development finance institutions to increase financing for the SDGs.
About UNEP FI’s Leadership Council

Chaired by Inger Andersen, UN Under-Secretary-General and Executive Director of the UN Environment Programme, the UNEP FI Leadership Council was established in 2021 to bring together CEOs of institutions serving on the UNEP FI Global Steering Committee, the board of the Principles for Responsible Banking or the board of the Principles for Sustainable Insurance.

The Council meets annually, providing vision and strategic direction to UNEP FI in orienting its role and that of the UN in shaping, mainstreaming, and deepening sustainability integration across the industry. It will further mobilise the financial community to support a sustainable, resilient, and inclusive economy.

2023 meeting

Chair

**Inger Andersen**, UN Under-Secretary-General, UNEP Executive Director

Facilitator

**Elliott Harris**, Former UN Assistant Secretary-General for Economic Development and Chief Economist

Guest speaker

**Makhtar Diop**, Managing Director, International Finance Corporation (IFC)
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**Resources:** The topics discussed during the third meeting are outlined in a [Background Paper](http://unepfi.org).
Leveraging private finance for sustainable development

Elliott Harris, former UN Assistant Secretary-General for Economic Development and Chief Economist, who facilitated the meeting, acknowledged that many countries do not think that the current international financial architecture is fit for the purpose of addressing the increasing sustainable development priorities, with developing countries facing more significant SDG financing gaps and challenges such as inflation, high-interest rates, and in particular, debt burdens. These are weakening the ability of public treasuries, in particular, to finance priorities for sustainable development. Multilateral Development Banks (MDBs) are being called on to change their business models to focus on sustainable development and the impact of sustainable investment, as well as to increase the leveraging of private finance.

Andersen noted that MDBs were stepping up to close the financing gap and was joined by guest speaker Makhtar Diop, Managing Director, International Finance Corporation (IFC), a member of the World Bank Group (WBG) and the largest global development institution focused on the private sector in developing countries. MD Diop said that institutional investors are difficult to mobilise for investments in small countries that can face significant challenges in financing the SDGs unless assets are aggregated to create scale. Attracting more financing from long-term institutional investors will require speeding up policy reforms.

Diop highlighted how international financial institutions are taking steps to strengthen their catalytic role in mobilising resources and influencing the regulatory framework to attract private sector investment in the SDGs and climate action. On climate, the WBG has set a target for 25% of investment to be climate-related by 2025; is supporting the development of carbon markets; is working to leverage its balance sheet better to increase lending; and will host the new Loss and Damage Fund, operationalised at COP28.

A WBG Private Sector Lab has identified potential solutions to address constraints in mobilising private sector investment to finance the energy and climate transition. These include increasing the offering of guarantees, addressing foreign exchange risks, increasing the scale of supportive measures such as swaps, and providing technical assistance to local institutions that can generate project pipelines.

The IFC is also innovating in project preparation with the launch of the Climate Partner Platform at COP28 to generate up to USD 11 billion in climate change investment in emerging markets. For the IFC to mobilise the private sector to significantly increase lending and invest USD 50 billion by June 2024, it is focusing on streamlining processes
and standardising products. It is also working with countries to strategically strengthen regulatory frameworks for public-private partnerships.

Diop said that more action is needed to change incentives to protect forests, and the WBG and Inter-American Development Bank are supporting net-zero-deforestation efforts in the Amazon. The IFC was among the first movers on green bonds and is now working on blue bonds to address what Diop sees as one of the biggest challenges in the coming years—water and sanitation. Other areas offering opportunities for the private sector to invest include cooling, transmission, green hydrogen, transportation, including electric vehicles, batteries, and sustainable mining, particularly in areas helping the energy and digital transitions.

A joint report by the IFC and International Energy Agency highlighted the need to strengthen regulatory frameworks on measures to scale up private sector investment in the transition to clean energy in emerging and developing economies. Diop distingushed between large countries still using and importing fossil fuels such as coal and those producing coal, which need finance to accelerate the social transition alongside the clean energy transition, helping coal-producing countries phase out the sector. One CEO added that it needs to be clarified that climate policies for a just energy transition should positively impact the communities that financial institutions serve.

Need to reform markets to unlock private finance

Elliott Harris told Council members that the increasing focus on the role of private sector finance will increase scrutiny of its sustainability impact. He explained that a recent UN policy brief has set out actions to scale up the leveraging of practice finance to maximise sustainable development, including changing incentives by updating market regulations or standards and practices that would focus markets and economies around the SDGs and particularly on climate. Harris said: “It is finance leaders such as yourselves, taking voluntary action to advance sustainable finance within your organisations, that should be well positioned to contribute to, and benefit from, the alignment of public and private finance with these sustainability objectives.”

When asked what sorts of IFA reforms would effectively best align private finance with sustainable development objectives, one CEO agreed that the financial architecture has failed to fulfill expectations in supporting long-term sustainable financing, particularly relating to the SDGs, noting that in some countries, most revenues go to servicing the interest on loans. He said that focusing efforts to reform the IFA on helping some countries resolve unsustainable debt levels would be necessary for sustainability and infrastructure financing for the SDGs at lower borrowing rates. He called for reforms to include increasing concessionary facilities for countries with unsustainable debt and reforming securities markets in countries where they are weak to be a source of long-term financing, especially syndicated facilities, and arrangements that would encourage the private sector to participate in financing the SDGs.
He noted: “It’s important for initial transactions to be simple but ambitious in terms of syndication or creating order books, for the market to understand there are a few new things and then build from that, as markets develop over time.”

He called for high ambition for COP29, with more action to speed up and extend work on country platforms, more Just Energy Transition Partnerships, and initiatives to accelerate climate finance in developing countries by bringing together local actors to drive action for investment in climate mitigation and adaptation.

“Urgent reform must be made for sustainable finance to more effectively mobilise finance for impact on the real world,” he said, “Sustainability-related information disclosure frameworks must be harmonised to prevent greenwashing. Timely and comprehensive harmonisation of taxonomies and standards need to be part of the reform.”

Andersen thanked the CEOs for stepping up and showing voluntary leadership. Still, she highlighted the need to have the policy and regulatory setting to accelerate the system-wide transition beyond voluntary action.

She said finance leaders could support government action on science-based policy and regulatory measures critical to driving the change needed to create a level playing field and a whole-of-government policy approach. We need integrated regulatory measures to help create enabling conditions for the large-scale mobilisations that the world needs for new industrial strategies and to shift economic sectors to more sustainable production and consumption.

Diop noted that taxonomies to define sustainable economic activities are essential for capital markets, but with 42 green taxonomies already in place, the challenge is to make them interoperable between countries. For example, the taxonomies of countries in the Amazonas should be as close as possible for capital market investing in cross-border entities. To support regional alignment in Latin America & the Caribbean (LAC), a taxonomy working group led by UNEP FI and other key organisations developed a LAC Taxonomy Common Framework, which provides guiding principles to help countries creating sustainable taxonomies in the region improve comparability and ensure interoperability across LAC and internationally. This could inform the development of a sustainable taxonomy in Brazil in 2024, which UNEP FI will support as a technical partner.

CEOs outlined how financial institutions can strengthen responsible engagement to encourage science-based policy and regulation for sustainable economies. A banking CEO said that banks could proactively engage policymakers on a positive formulation of regulatory policies through consultation and lobbying with banking associations or other professional bodies. They can leverage initiatives such as the Principles for Responsible Banking (PRB) to engage regulators indirectly.
“Financial institutions can strengthen responsible engagement to encourage science-based policy and regulation for sustainable economies.”

One CEO said that financial institutions need to ensure internal sustainability activities and advocacy are aligned and informed by the science of climate change. He emphasised the critical role of science-based identification of risks in the success of insurers’ work to prevent catastrophic losses and better protect communities. He gave an example of a coalition of insurers and other stakeholders undertaking advocacy in Canada with a collective perspective to strengthen national adaptation and funding commitments. Advocacy by insurers working with other stakeholders helped push the government to improve national adaptation measures such as building codes so that homes are built to withstand extreme weather, to ensure people are not put in harm’s way, and for investment to strengthen infrastructure and incentivise homeowners.

“Financial institutions need to ensure internal sustainability activities and advocacy are aligned and informed by the science of climate change.”

A banking CEO called for action to raise awareness of the need for governments to act with speed on policies to drive sector decarbonisation pathways, a critical lynchpin to achieve net-zero targets. “Pinchpoints include approval times for climate projects and understanding what credible transition plans look like for international and domestic companies,” he explained.

“We need governments to act with speed on policies to drive sector decarbonisation pathways, a critical lynchpin to achieve net-zero targets.”

An insurance CEO agreed that the regulatory focus should address the need to improve data quality to assess the credibility of transition pathways at customer or sector levels. “The regulatory focus has been on the impact of climate change on insurers instead of on accelerating the transition,” he said, adding that divergence across jurisdictions risks unnecessary complexity in the system. “We would like to see the regulator supporting and incentivising certain behaviours, which could help mitigate previous challenges around competition law, which is a limiting factor on really great collaboration and moving at pace,” he explained.
“We would like to see the regulator supporting and incentivising certain behaviours, which could help mitigate previous challenges around competition law.”

Another Leadership Council member warned that we are not going fast enough because the profound transformation required to decarbonise the world will only happen if it makes economic sense for companies, investors and citizens to change behaviour massively at the scale needed. “That has huge implications which do not bode well with the way regulators and policymakers are approaching the issue,” he said, giving the example of the banking industry’s key role as an intermediary. “Banks are facilitating investment to decarbonise, but principals are making the investments, and it has to make economic sense for them. Banks cannot meet net-zero commitments unless society comes along. By focusing on the middleman, regulators will just be trying to move the dog by the tail and will not achieve anything.”

He added: “Much more can be done to direct policy recommendations to bite the bullet that carbon emission must have a price. Until we have that, we are not going to drive the behaviour change needed.”

“The transformation required to decarbonise the world will only happen if it makes economic sense... Much more can be done to direct policy recommendations to bite the bullet that carbon emission must have a price.”

Another CEO agreed, adding that we are still in the early stages of sustainable finance. Beyond regulators, other stakeholders need to be brought on board. To support this, financial institutions can engage various stakeholders to raise awareness of science-based information and facts.

“We are still in the early stages of sustainable finance.”

One CEO said discussions on new sustainability frameworks for sectors with Ministries of Agriculture, Energy, Environment, and Economy, as well as solution providers, to accelerate the pace of scaling up changes in areas such as renewable energy, storage, and building retrofitting, had been successful. By openly discussing plans with the government and real economy players, they had the opportunity to advocate for policy changes to accelerate investments and leverage public programmes underpinning growth in sustainable investments.

Another CEO saw value in financial institutions partnering with non-governmental organisations (NGOs), academic institutions, and others to evolve sustainability objectives collectively. This can provide the network, expertise, and resources to inform institutions and regulators on addressing issues such as biodiversity.
Potential priorities for UNEP FI to support reforms

While CEOs recognised that more science-based policy advocacy is needed, one said a barrier is that access to the science on which to base this on is not readily available to financial institutions. They felt that the UN could convene academics to increase access to science-based information that will help drive governments, clients, and customers to act.

Another CEO recommended that UNEP FI prioritise engagement with regional policymakers and regulators on the latest global developments in sustainability, assisted by dedicated capacity building involving regulators on the experiences and challenges of implementation. This could effectively increase the profile of initiatives and awareness of how to remove institutional barriers to achieving sustainability targets.

He said that UNEP FI should leverage its unique position in the market to facilitate increased public-private finance cooperation and coordination and look into how to shape incentives and regulations to mobilise private finance. It should convene industrial experts to address bottlenecks of financial flows, design innovative finance structures, and create tools for climate and nature risk management, ensuring equitable and just collaboration between the public and private sectors.

He added that UNEP FI should engage in and contribute to multilateral platforms to promote pragmatic, harmonised, interoperable and coherent sustainable finance policy across jurisdictions, documenting a catalogue of the formation and implementation of fiscal and regulatory developments needed to bridge the gaps in sustainable finance.

Another CEO said that UNEP FI could help the finance industry harmonise sustainable finance standards by convening members in working groups on technicalities, networking with mainstream standard setters, and promoting wider adoption of such standards. Several CEOs recommended that UNEP FI provide guidance, technical assistance, and capacity building to embed sustainability in financial institutions’ processes and support stakeholder engagement for sustainable development outcomes.

Some Council members thought that UNEP FI could support the alignment of finance with sustainable development objectives by raising awareness in developed countries of the specific needs of less developed countries. UNEP FI could facilitate engagement and provide thought leadership to help address developing countries’ need to improve their investment climate to attract finance for the SDGs and assist the finance industry in accessing trade finance solutions and political risk guarantees. UNEP FI could support the development of finance by helping regulators and markets understand the differences between issues in developed and developing regions. For example, some developing countries have low emissions and mainly sustainable energy but face challenges in making agricultural management, that conserves biodiversity, economically sustainable.
Conclusions

USG Andersen reminded Council members that regulators and the finance industry at large are not quite seeing that we are currently heading for a 2.9 to 3°C world. She concluded that finance leaders are elevating the implementation of voluntary frameworks such as the PRB, Principles for Sustainable Insurance, and Net-Zero finance alliances, which provide a critical underpinning and framework for how financial institutions can contribute to addressing climate change, nature loss, and pollution. However, there was agreement that we are not going fast enough and must change the regulatory setting.
UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. We've established the world’s foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges.

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