



Inquiry: Design of a Sustainable Financial System



Building a Sustainable Financial System *From Momentum to Transformation*

Nick Robins, Bocconi University, Milan, 12 September 2016



A quiet revolution is changing the way in which the financial system responds to the sustainable development imperative



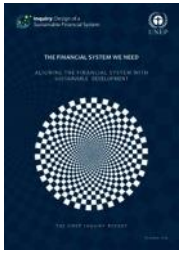
This year, the momentum has grown – in key capital markets, countries and global arena (eg G20)



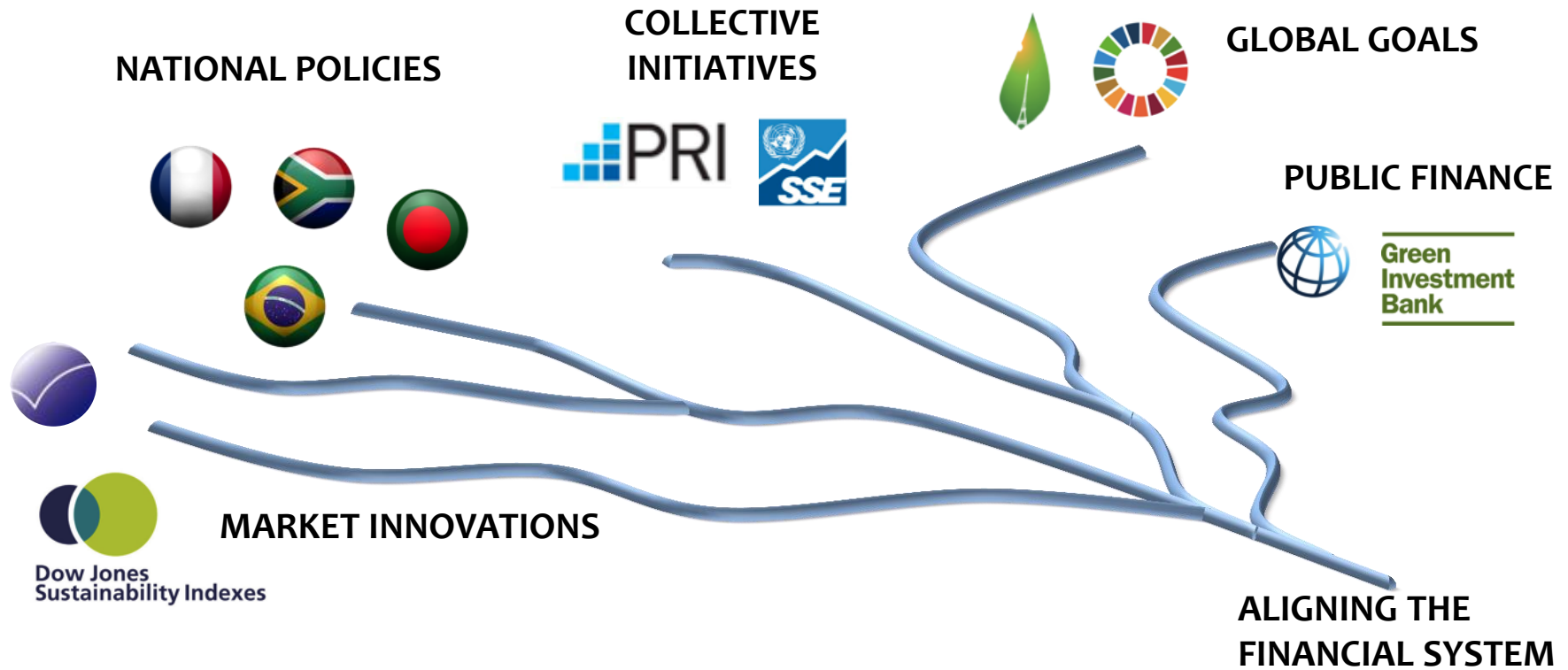
This momentum, however, remains insufficient in terms of breadth, depth, scale and speed



A series of steps can help to deliver transformation – national strategies, fintech, leveraging public finance, building capabilities & developing common tools.



THE QUIET REVOLUTION



“There is a quiet revolution seeking to integrate sustainable development into the fabric of the financial system.”

UNEP INQUIRY, 2015

THE QUIET REVOLUTION JUST GOT LOUDER



2015



FINANCIAL STABILITY BOARD
task force on climate-related disclosure



CHINA: adopts national policy package for transformation “Guidelines for establishing a green finance system”

2016

GREEN BONDS: A \$694 billion investment universe



G20: “In order to support environmentally sustainable growth globally, it is necessary to scale-up green financing”

EUROPEAN UNION:
EU to develop green finance strategy



2017

“Achieving the SDGs will require mainstream finance. We need to build a new system –that delivers sustainable investment flows, based on both resilient market-based, & robust bank-based, finance.” **Mark Carney, Governor, Bank of England**



THE UNEP INQUIRY APPROACH

Examples only: not comprehensive

COUNTRY ENGAGEMENT



CHINA: green finance as a national strategy.



INDIA: new tools for financing clean energy



KENYA: from mobile banking to green finance



UK: City of London Green Finance Initiative

SECTORAL FOCUS



POLICY DIALOGUE



'THE FINANCIAL SYSTEM WE NEED



WORKING PAPERS
(80+)



2015: 'ALIGNING THE FINANCIAL SYSTEM WITH SUSTAINABLE DEVELOPMENT'



2016: 'FROM MOMENTUM TO TRANSFORMATION'

THE 5 DIMENSIONS OF POLICY ACTION



REALLOCATION OF CAPITAL



BRAZIL: Agricultural credit linked to green compliance.



INDIA: Priority sector lending to distributed renewables.

RISK MANAGEMENT



NETHERLANDS: DNB review of climate risk



UK: Insurance prudential review of climate risk.

RESPONSIBILITIES OF INSTITUTIONS



USA: Department of Labor recognises ESG issues as fiduciary factors.



SOUTH AFRICA: Code for Responsible Investment in South Africa (CRISA).

REPORTING AND DISCLOSURE



FRANCE: New investor reporting requirements



CALIFORNIA: Fossil fuel disclosure for insurance firms

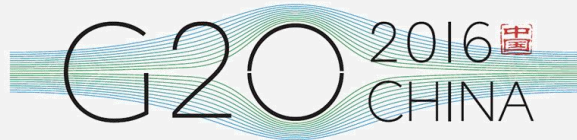
ROADMAPS



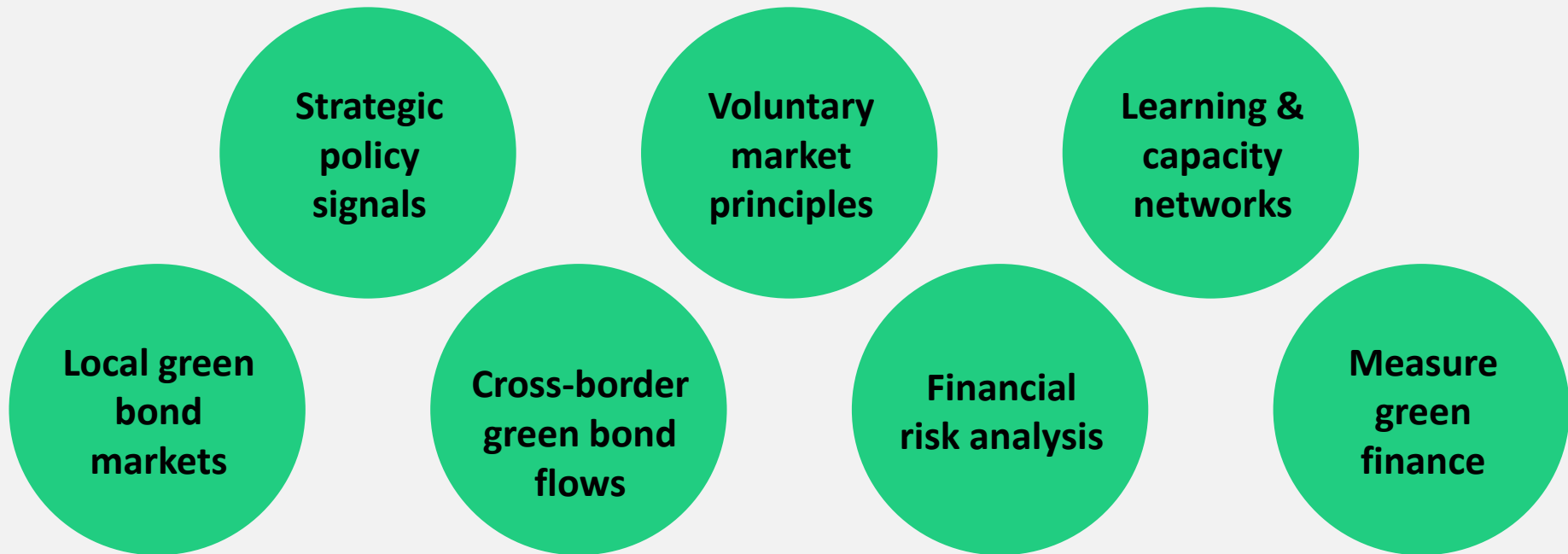
INDONESIA: OJK Roadmap for Sustainable Finance



SWEDEN: Budget Bill: Finance sector to serve sustainable development



Emerging options to enhance financial system ability to mobilize private capital for green investment



[Source: G20 Green Finance Synthesis Report]

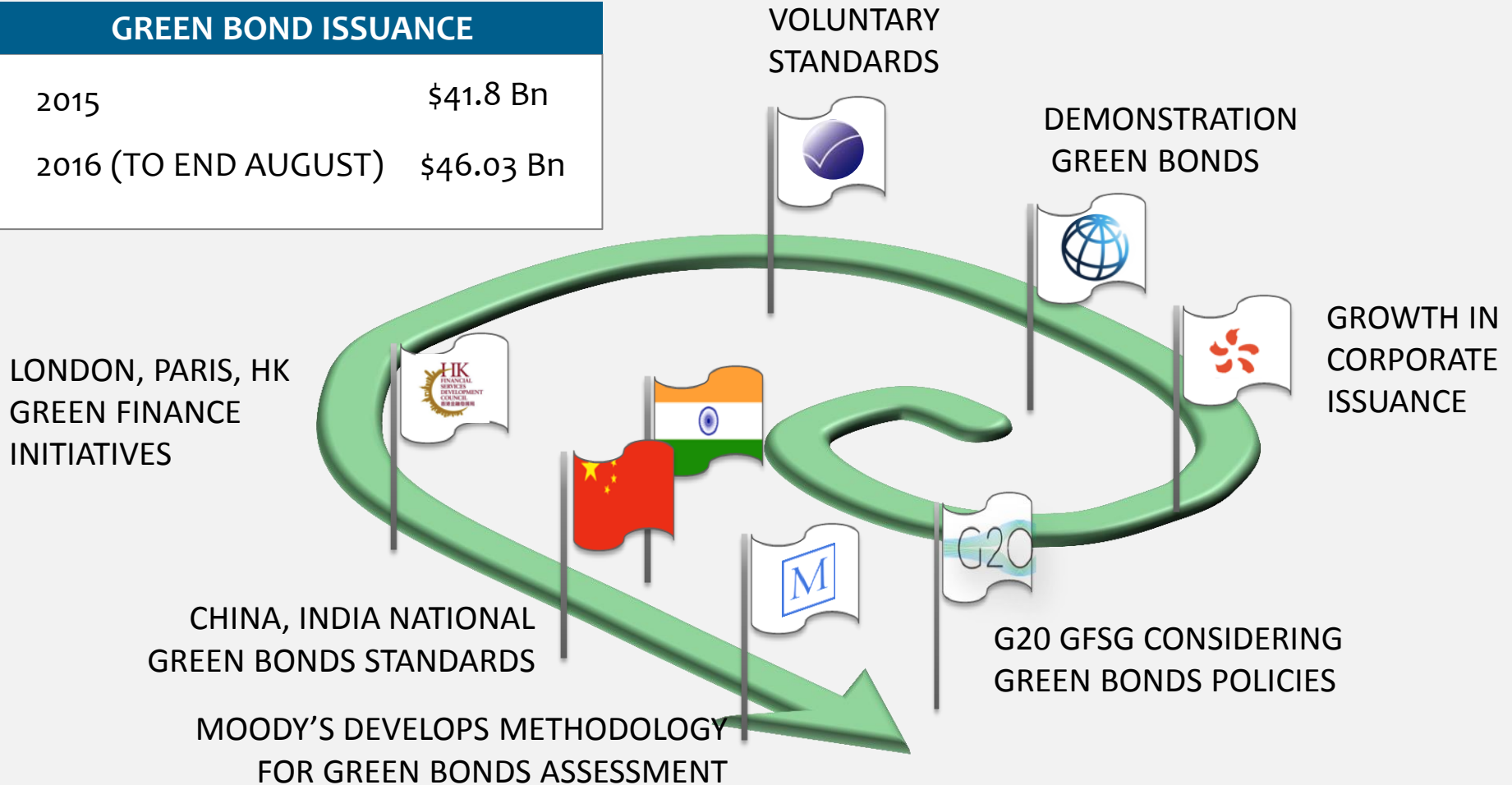
“There is an opportunity for the G20 to create practical green financing models. The good news is there is an abundance of capital globally, but governments need to create the proper conditions.” **Hank Paulson, Paulson Institute**

GREEN BONDS: MARKETS & POLICY EVOLUTION



GREEN BOND ISSUANCE

2015	\$41.8 Bn
2016 (TO END AUGUST)	\$46.03 Bn



“In China, establishing a green finance system has become a national strategy. In the first quarter of 2016, China was responsible for around 50% of the world's green bond issuance.”

Zhou Xiaochuan, Governor, People's Bank of China

TECHNOLOGY CAN BE A GAME CHANGER



- AUTOMATION –
Reduces cost
- DECENTRALISATION –
Increase competition
- BIG DATA – improve
risk valuation
- INTERNET OF THINGS –
Integrate ‘financial’
and ‘real’ economies

OPPORTUNITY & RISK



Mobile
money
platforms



Pay-as-you-
go solar



Blockchain



Decentralised
land register



Telematics
motor
Insurance



data analytics
health insurance

“In Kenya it was telecoms companies, rather than banks which have opened up financial inclusion, and this has become a platform for other technologies such as solar power.”

Matu Mugo, Deputy Director of Banking Supervision, Central Bank of Kenya

THE CHALLENGE IS NOW SCALE AND SPEED



TRANSFORMATIVE CHANGE
NEEDED IN ECONOMY

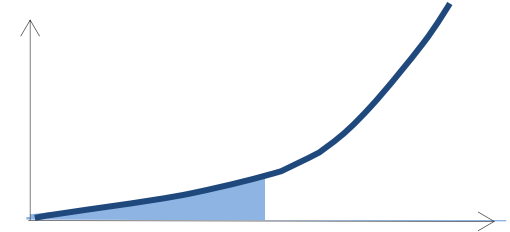


THE GLOBAL GOALS
For Sustainable Development

MOBILISING FINANCE IS
CRITICAL

\$90 TRILLION
OVER 15 YEARS

SUSTAINABLE FINANCE
NEEDS TO SCALE



- **One-third** of the world's arable land jeopardised by land degradation.
- **Half** of largest aquifers beyond sustainability tipping point.
- **17%** of the world's population lack access to electricity

- **\$260 billion** annual investment gap in agriculture in developing countries.
- **US\$600 billion** needed in green investment in China ; only 15% from public sources.

- **Only 5-10%** of bank loans are 'green' in countries where measured.
- **Less than 1%** of total bond issuance is made up of labelled green bonds.

“Sustainable development is an economic necessity. The SDGs both address risks that threaten our ability to meet our liabilities and also present the opportunity to build the returns that will pay the pensions of ordinary working people” **Anne Simpson, Investment Director, CalPERS**

STEPS TO TRANSFORMATION



NATIONAL STRATEGIES

Link strategies for financial sector development with plans for SDGs and Paris Agreement implementation.

FINTECH & POLICY RESPONSES

Establish an international coalition to influence the development of codes, standards, regulations and policy .

LEVERAGING PUBLIC FINANCING

Realise a three-fold role: crowding in private capital, creating new markets and pioneering new practices.

AWARENESS & CAPABILITIES

Build awareness & capabilities of financial professionals and policymakers, as well as financial literacy of citizens.

COMMON METHODS, TOOLS & STANDARDS

Develop consistent definitions, methods, tools and standards for capital mobilisation, risk and performance assessment.



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