



**ICCG Webinar Series on Climate Finance**  
**Building a Sustainable Financial System**  
*Moving from Design to Delivery*

Nick Robins, UNEP

May 11th, 2016



# Building a Sustainable Financial System

## *Moving from Design to Delivery*

Nick Robins, ICCG/FEEM Webinar, May 11<sup>th</sup> 2016



**2015 was the year when sustainability became recognised as a factor for financial system health:** Action within the system needed to mobilise capital and mainstream sustainability performance.



**The Inquiry identified a ‘quiet revolution’ in policy practice:** A growing number of policy innovations across banking, capital markets, insurance and investment. But still new and fragmented.



**2016 looks set to be the year of scaling up action:** Harnessing financial system to implement the Paris Agreement and the Sustainable Development Goals through green finance strategies.

# A SYSTEMIC CHALLENGE



## TOO MUCH OF THIS



## NOT ENOUGH OF THIS



## FINANCING CHALLENGES (ILLUSTRATIVE)

US\$16  
trillion

### Annual global investment

All needs to be green and resilient

US\$5-7  
trillion

### Annual investment needed for sustainable development goals

e.g. in infrastructure, energy, agriculture

US\$7  
trillion

### Annual environmental externalities

– need to be costed into decision making

US\$6  
trillion

Reduction in fossil fuel and power investment need (2015-2030)

*“Finance overwhelms the real economy. The lessons of the global financial crisis have not been assimilated, and we are learning all too slowly the lessons of environmental deterioration.” Pope Francis*

## FINANCIAL ASSETS & ACTORS



**Banking**  
US\$135 tn



**Bonds**  
US\$100 tn



**Equities**  
US\$70 tn



**Investors**  
US\$100 tn



**Insurance**  
US\$29 tn

## 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.

## 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



### ANALYSIS FRAMEWORK

Understanding the rationale for action



### FINDINGS

Focusing on country experience and sector priorities



### NEXT STEPS

Taking forward recommendations for national action and international collaboration



### FRAMEWORK FOR ACTION

Packages of policy proposals



Upgraded governance

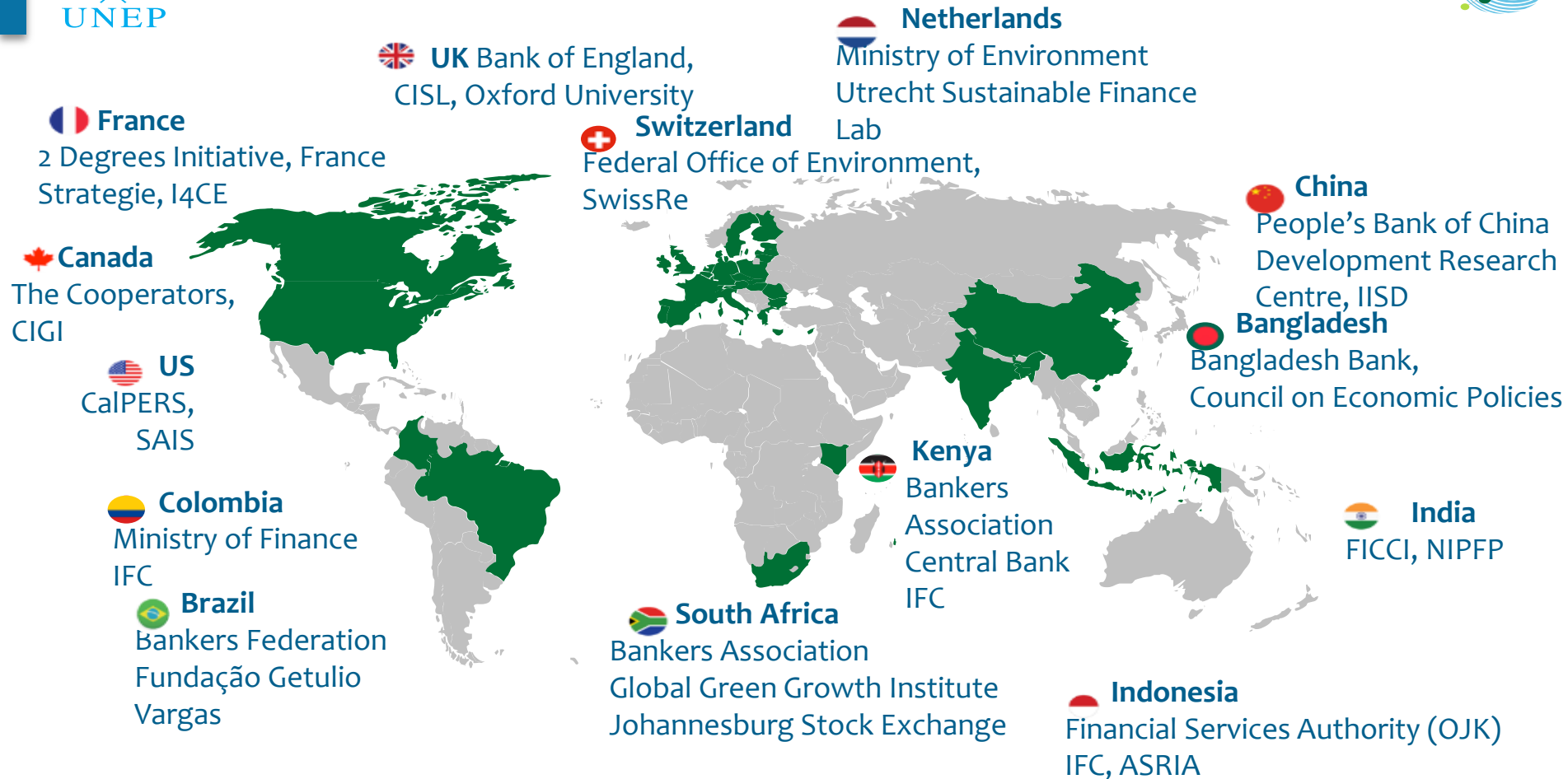


### TOOLKIT

38 approaches in four clusters



## FOCUS ON PRACTICE





Mark Carney, Governor,  
Bank of England

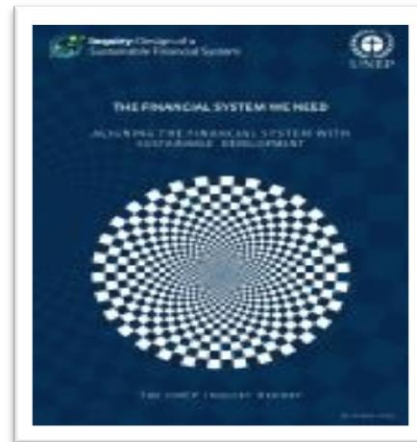
Atiur Rahman, Governor,  
Bangladesh Bank

Yi Gang, Deputy Governor,  
People's Bank of China

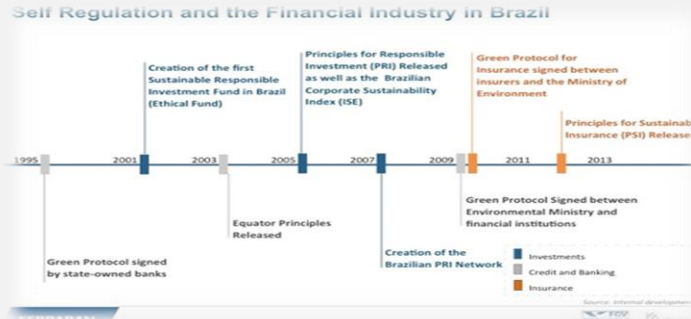
*“Green finance cannot be a niche”*

*“Developing economy central banks have been trying to address the risks of instabilities and imbalances at sources, by promoting sustainable financing”*

*“China will advance green finance during its presidency of the G20 in 2016”*



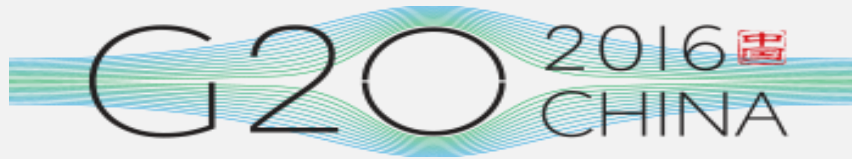




**Enhancing the market:** BM&F Bovespa stock exchange launch ISR Index in 2005

**Managing risks:** In 2014, BACEN introduced new requirements for banks to manage socio-environmental factors as part of core risk system to improve governance and strengthen soundness.

**Performance measurement:** Brazilian Bankers Association (FEBRABAN) starting to track green lending flows: c9% of corporate lending.



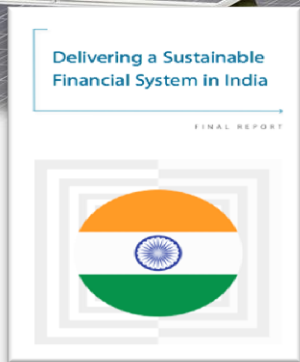
**Green investment needs:** US\$400bn p.a to finance green investment; only 15% from public sources.

**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:** Promoting green finance as part of its presidency of the G20 in 2016 (Green Finance Study Group)

*“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**



**Investment needs:** USD\$200bn required every year for basic infrastructure alone, half from private sector

**Policy action:** Social infrastructure and decentralized renewables included within the Priority Sector Lending requirements for banks

**Accelerating market leadership:** National voluntary guidelines for responsible financing released by Indian Banks Association

**Supporting Green Bonds:** Issuance of requirements for development of green bond market by SEBI, the markets regulator

*“I fully support the call for a national green finance strategy to scale up these initiatives.”*

**Jayant Sinha, Minister of State for Finance, India**



**Energy Transition Law:** Most ambitious national law on climate disclosure

- **Investors** to disclose how they manage sustainability factors, carbon footprint and contribution to the energy transition, and
- **Banks** to incorporate climate factors into stress tests (end 2016)

**Tax incentives for households:** Savings in Livret A tax-exempt fund utilized by CDC – 50% allocated to loans for social housing and local infrastructure

**Product labelling:** SRI and Energy Transition labels for financial products to increase product visibility, expected 2016

*“It is essential that the financial system as a whole takes climate risk into account, anticipates ambitious targets and integrates this into investment decisions.”*

**Laurent Fabius, Foreign Minister, France**



The United Kingdom:  
Global Hub, Local Dynamics

MAPPING THE TRANSITION TO A  
SUSTAINABLE FINANCIAL SYSTEM



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

**Prudential Regulation:** The PRA has examined the impact of climate on insurance companies: physical, transition and litigation risks – laid the foundations for action by the Financial Stability Board.

**Greening the City:** City of London Corporation launched its Green Finance Initiative in January 2016, supported by DECC and Treasury

*“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**





**Capital Markets Union:** Enhancing access to finance for SMEs, and ensuring an appropriate regulatory environment for long-term sustainable investment

**Pensions (IORP II):** European Parliament voted in favour of amendments in Jan 2016, including measures to mandate consideration of environmental risks in investment

**Corporate Disclosure:** Consultation underway on guidelines for non-financial reporting

**Systemic Risk:** ESRB is assessing the impact of the transition to a low-carbon economy for financial system health

*“Europe requires significant new long term and sustainable investment to maintain and extend competitiveness and shift to a low-carbon and resource-efficient economy.”*

**Action Plan for Capital Markets Union**

# INQUIRY: 10 RECOMMENDATIONS

## A GROWING ECOSYSTEM OF ACTION



Principles for a sustainable financial system

Disclosure standards convergence

Fiscal measures optimisation

Performance framework

Banking standards

Code on investor duties

Coalition for greening capital markets

Guidance for insurance regulators

International research collaboration



# THE FINANCIAL SYSTEM AND THE GLOBAL GOALS

## MOBILISING

Financial Inclusion

Infrastructure

Financing innovation

## MAINSTREAMING

Market integrity

Risk and resilience

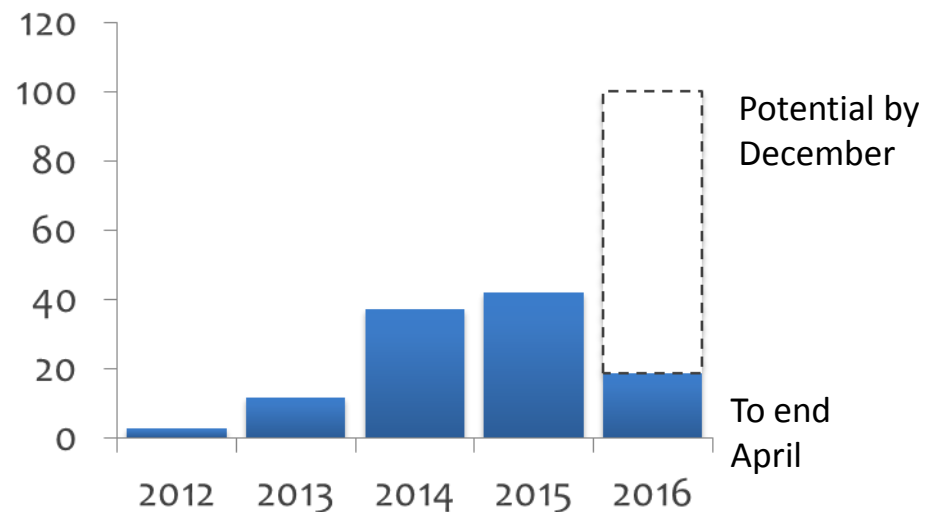
Responsibility





# MOBILISING CAPITAL: *The role of green bonds*

## GREEN BOND ISSUANCE (US\$bn)



[Source: Climate Bonds Initiative]

## SELECTION OF GREEN BONDS ISSUED IN FIRST SIX MONTHS OF 2016



**\$1.1bn** wind



**\$0.5bn** public transport



**\$1.5bn** renewable energy, efficiency, green buildings



**\$5.8bn** energy efficiency clean energy, waste

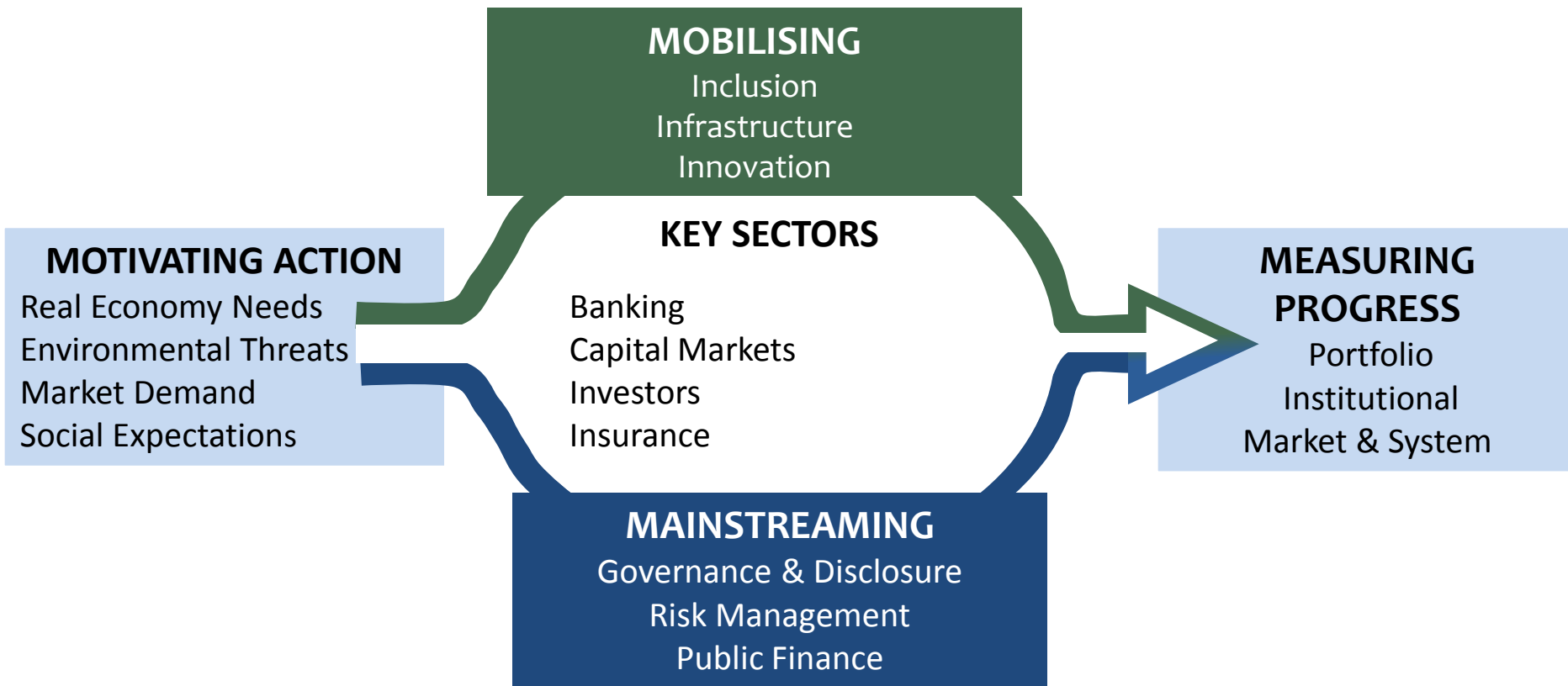
*“The green bond market is at an exciting time of expansion. Green bonds are attractive precisely because they are simple. They have the same recourse to the issuer as traditional debt. They have no specialised cash-flows, and no financial engineering.”*

*Harriett Baldwin MP, UK Economic Secretary to the Treasury (City Minister)*

## 2016: THE YEAR OF GREEN FINANCE



-  **Strengthening international market architecture**, through the G20 Green Finance Study Group under China's presidency
-  **Mobilising institutional investors**, through the new Green Infrastructure Investment Coalition of investors and policymakers
-  **Building resilience**, by incorporating sustainability into insurance policy and regulation.
-  **Improving transparency**, through the FSB's climate disclosure task force and increased reporting from financial institutions.
-  **Developing national strategies**, through country-driven processes to harness green finance for the SDGs and climate action.



# UNEP INQUIRY NOW: FROM DESIGN TO DELIVERY

## SUPPORTING EMERGING LEADERS

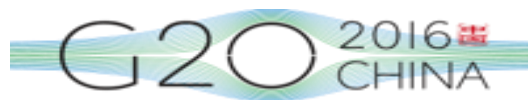
### POTENTIAL

Country engagement with **existing and emerging policy innovators.**

Engagement with **market leaders and initiatives**

Convening **developing countries.**

## INTERNATIONAL COLLABORATION



Green Finance Study Group

FSB, IMF, OECD, World Bank, UN

## ADVANCING SYSTEM INNOVATION

Study on how **fintech** is disrupting the system, and how it can be shaped.

Developing **performance measurement framework** for green finance

Assessing how **insurance regulation and sustainability** can advance strategically

*“2015 was the year of building a new set of foundations for the global economy, and signaling new directions for the financial system. It's our task in 2016 to take the practical steps in delivering the shift ”*

**Achim Steiner, Executive Director, UNEP**

[www.unepinquiry.org](http://www.unepinquiry.org)



**Global Report**  
(English + 6 languages)

Policy Summary

Country research



Other reports



Working papers



## For more information

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# Q&A

If you have any questions, please write us on the GoToWebinar chat.  
For time management reasons, we don't assure that all questions will be answered.

All details will be published on the ICCG website: **[www.iccgov.org](http://www.iccgov.org)**

