Building a Sustainable Financial System

*From Momentum to Transformation*

Simon Zadek, Co-Director, UNEP Inquiry

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FINANCING SUSTAINABLE DEVELOPMENT CHALLENGE

FINANCING CHALLENGE

- **US$16 trillion**: Annual global investment. All needs to be green and resilient.
- **US$5-7 trillion**: Annual investment needed for sustainable development goals.
- **US$7 trillion**: Annual environmental externalities.

REASONS WHY MISALIGNED WITH SUSTAINABILITY?

- Weak real economy regulation & pricing
- Inadequate/ inefficient public spending

**Misalignment of financial system?**

**UNEP Inquiry Mandate**

advance options to improve the financial system’s alignment with sustainable development
"There is a quiet revolution seeking to integrate sustainable development into the fabric of the financial system."
“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
MORE COUNTRIES TAKING ACTION

OVER 200 POLICY AND REGULATORY MEASURES ACROSS 60 COUNTRIES

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2016

2000

Developed country

Developing and emerging economy

INDONESIA: Banks to stop credit for coal mining in East Kalimantan

CHINA: Pilot for compulsory environmental liability insurance

AUSTRALIA: Pensions regulations require ESG risk management

KAZAKHSTAN: Voluntary ESG reporting guidelines

ITALY: National dialogue on sustainable finance

[Illustrative examples]

“There is an abundance of capital globally, but governments ... have an important role to play in setting the policies, regulations, incentives, and in ensuring that they are enforced.”

Hank M. Paulson, Chair, Paulson Institute
MOMENTUM IS NOT ENOUGH

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
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
ANT Financial Services is exploring with the UNEP Inquiry a robust method to provide individual carbon footprints based on transaction data across its 630 million users, and to build associated standards and incentives for carbon savings.

**SYSTEM DYNAMICS: TECHNOLOGY IS 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
Link strategies for financial sector development with plans for SDGs and Paris Agreement implementation.

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

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

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

Develop consistent definitions, methods, tools and standards for capital mobilisation, risk and performance assessment.
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 INQUIRY: PEOPLE AND INFORMATION

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