

THE FINANCIAL SYSTEM WE NEED

ALIGNING THE FINANCE SYSTEM FOR SUSTAINABLE DEVELOPMENT

WASHINGTON DC, JANUARY 2016

SIMON ZADEK, CO-DIRECTOR, INQUIRY

UNEP CONVENES FINANCIAL COMMUNITY IMF/WORLD BANK ANNUAL MEETINGS



Lima, 8th October 2015



Mark Carney, Governor,
Bank of England

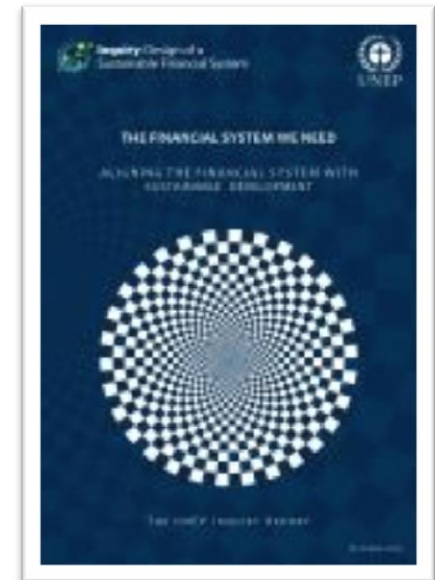
“Green finance cannot be a niche”

Atiur Rahman, Governor,
Bangladesh Bank

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

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

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



FINANCING CHALLENGE & INQUIRY MANDATE

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

US\$6 trillion

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

REASONS WHY MISALIGNED WITH SUSTAINABILITY?

Weak real economy regulation & pricing

Inadequate/ inefficient public spending

Misalignments within financial system?

RATIONALES FOR ACTION IN FINANCIAL SYSTEM

Managing risk

Market failures in the financial system can aggravate externalities: short-termism, misaligned incentives

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 options to improve the financial system's alignment with sustainable development



- 15 COUNTRY STUDIES, 70 WORKING PAPERS

 **UK** Bank of England,
CISL, Oxford University


 **Netherlands**
Ministry of Environment/DNB
Utrecht Sustainable Finance Lab

 **France**
2 Degrees Initiative, France
Strategie, I4CE

 **Switzerland**
Federal Office of Environment,
SwissRe

 **China**
People's Bank of China
Development Research
Centre, IISD

 **Canada**
The Cooperators,
CIGI


 **Bangladesh**
Bangladesh Bank,
Council on Economic Policies

 **US**
CalPERS,
SAIS

 **Colombia**
Ministry of Finance
IFC

 **Kenya**
Bankers
Association
Central Bank
IFC

 **India**
FICCI, NIPFP

 **Brazil**
Bankers Federation
Fundação Getulio
Vargas

 **South Africa**
Bankers Association
Global Green Growth Institute
Johannesburg Stock Exchange

Indonesia
Financial Services Authority (OJK)
IFC, ASRIA

'A QUIET REVOLUTION'



Diverse starting points



Financial inclusion,
greening industry



Air pollution



Infrastructure
investment



Post-crisis rebuilding
of trust in finance



Climate change

Measures in practice



Integration in prudential
banking regulation



New investor reporting
requirements on climate



Coordinated roadmap led
by regulator



Financial sector compact



Incentives for clean
energy bonds

Levers for action



Enhancing market
practice



Harnessing the public
balance sheet



Directing finance
through policy



Transforming culture



Upgrading governance



the French Minister of Finance and Public Accounts



How to shift the trillions?

MAY 22ND, 2015 - PARIS, FRANCE
UNESCO HEADQUARTERS

ENERGY TRANSITION LAW



Corporations: disclose exposure to financial risks linked to climate change, contribution to climate change and strategic actions



Banks: incorporate climate factors into stress tests - end of 2016



Investors: disclose how they manage sustainability factors, carbon footprint and contribution to the energy transition

“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



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



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

Prudential Regulation: The PRA has examined the impact of climate on safety and soundness of insurance companies: physical, transition and litigation risks.

Market Creation: The Green Investment Bank instrumental in creating a new class of ‘renewable investment trusts’

Greening the City: City of London Corporation to launch Green Finance Initiative, sponsored by government – as part of “2016 Year of Green Finance”

“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**

TAKING A SYSTEMATIC APPROACH



‘DEVELOPING COUNTRY’



NATIONAL COMPACTS
& PLANS



‘DEVELOPED COUNTRY’

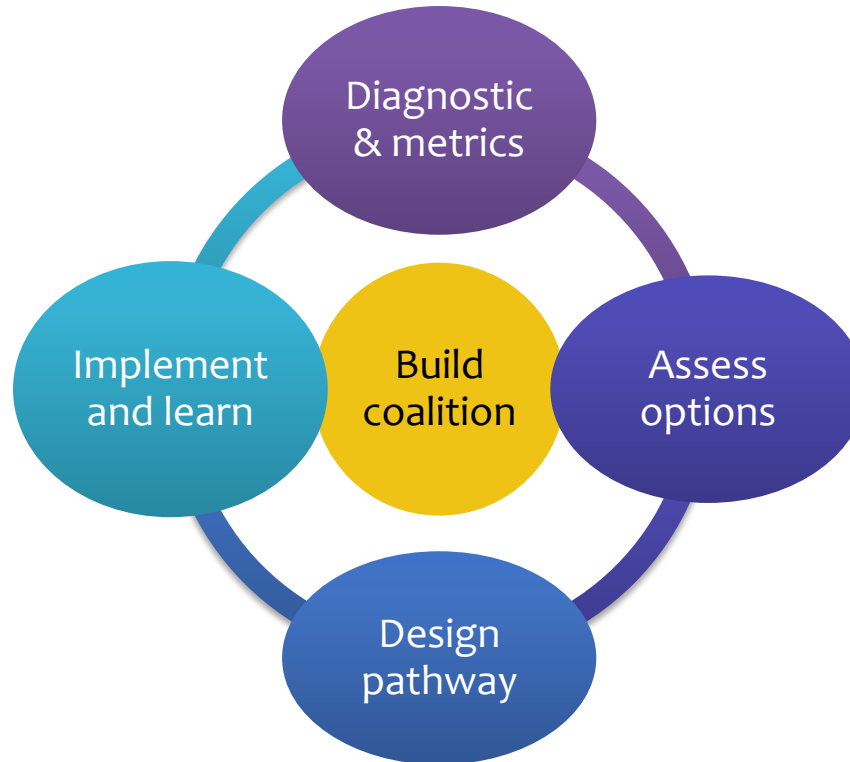
Deepening access to
finance

Reducing local
environmental impacts

Mobilising capital for
clean infrastructure

Strengthening resilience
of the financial system

Improving market
efficiency and
transparency



Strengthening financial
culture

Driving the low-carbon
transition

Supporting long-term
needs of real economy

Strengthening resilience
of the financial system

Improving market
efficiency and
transparency

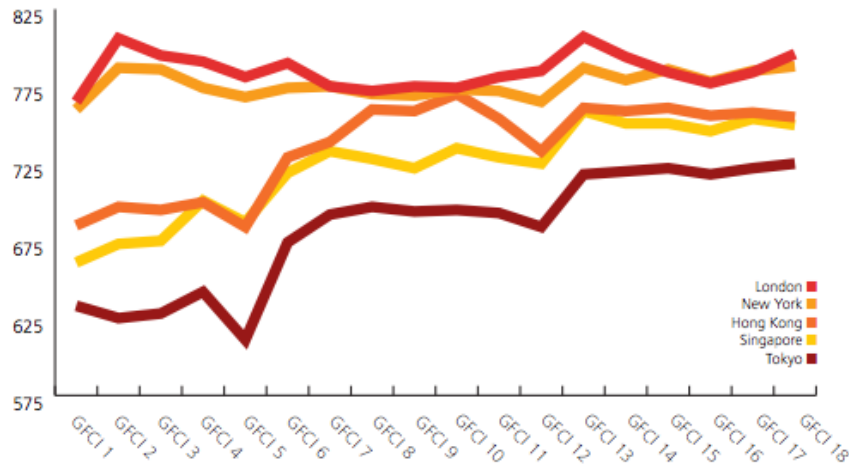
“The sustainable finance programme is not only intended to increase financing but also to improve the resilience and competitiveness of financial institutions”

Muliaman D. Hadad, Chairman, Indonesia Financial Services Authority (OJK) Board



CURRENT ASSESSMENT DOES NOT TAKE SUSTAINABILITY FACTORS INTO ACCOUNT

THE FUTURE? RACE TO DEVELOP AS LEADING GREEN FINANCE HUB



Global Financial Centre Index is based on business environment, financial sector development, infrastructure, human capital and reputation.



Exploring how sustainability as a factor in future competitiveness

AN AGENDA FOR ACTION

GROWING AND HARMONIZING



Reallocating capital, for example, through a focus on capital market development (green bonds, green infrastructure trusts)



Improving market efficiency, for example, through the FSB task force on climate-related disclosure



Deepening resilience, for example, through a global forum of insurance regulators on sustainability



Strengthening the policy architecture, for example, work on green finance during China's G20 in 2016



Tracking performance, for example, through the development of shared performance metrics



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