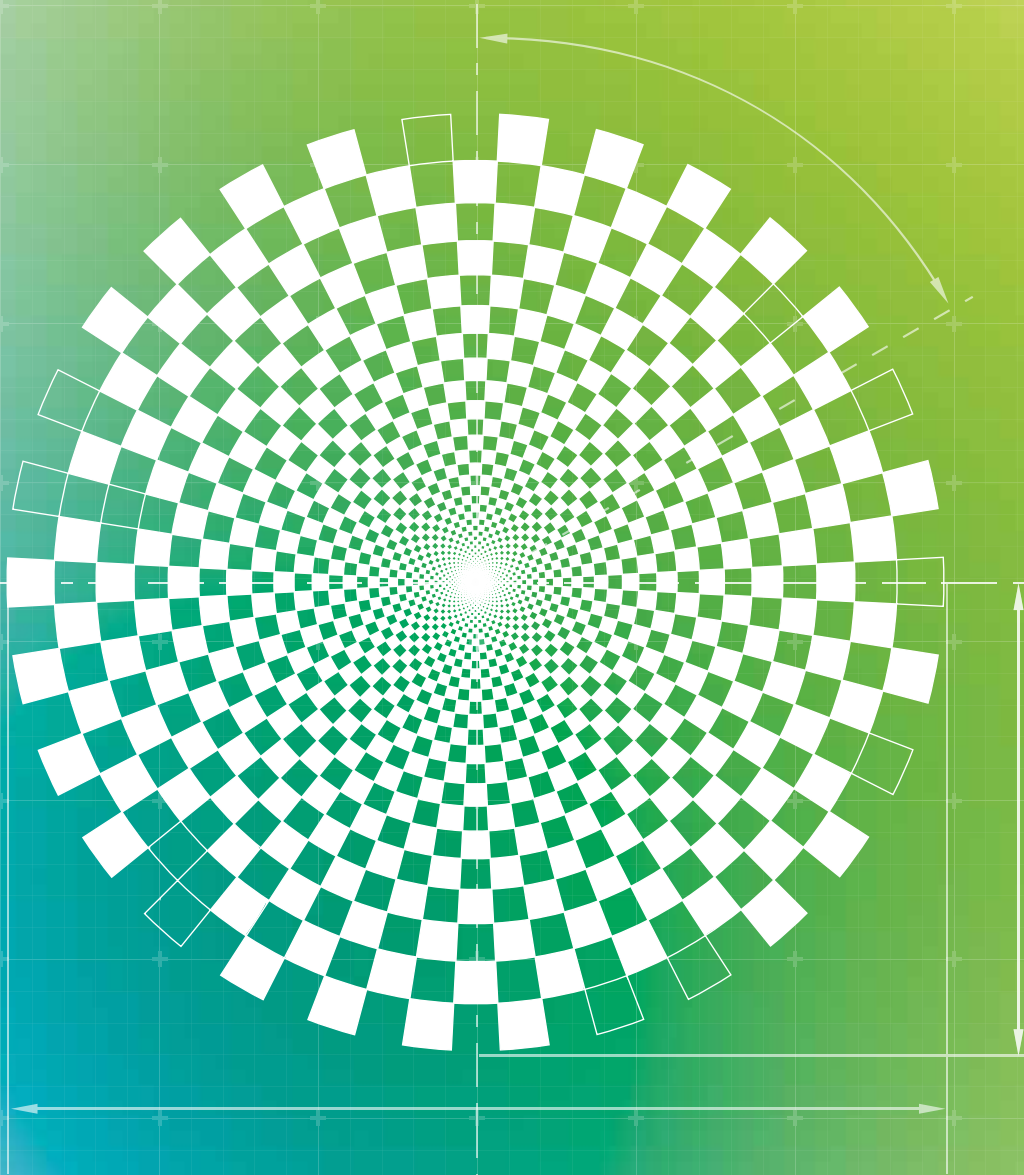


SUSTAINABLE FINANCE PROGRESS REPORT



UN Environment Inquiry

The Inquiry into the Design of a Sustainable Financial System was initiated by the United Nations Environment Programme (UN Environment) to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy—in other words, sustainable development. Established in January 2014, it published the first edition of 'The Financial System We Need' in October 2015, with the second edition launched in October 2016. Over its four-year mandate, the Inquiry worked in more than 20 countries, partnered with more than 70 organizations and produced more than 120 reports on key dimensions of green and sustainable finance. The Inquiry completed its mandate in 2018 and key activities have become embedded in the core work of UN Environment.

More information on the Inquiry is at: www.unepinquiry.org or from: Ms. Mahenau Agha, Director of Outreach mahenau.gha@un.org.

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About this report

This input paper has been prepared by the authors as a contribution to the G20 Sustainable Finance Study Group (SFSG), but has not been endorsed by it, nor does it represent the official views or position of the SFSG or any of its members.

Comments are welcome and should be sent to iain.henderson@un.org and marcos.mancini@un.org.

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1 OVERVIEW



The G20's work on sustainable finance under Argentina's Presidency builds on earlier work focused on green finance under China's (2016) and Germany's (2017) G20 Presidencies. The Green Finance Study Group (GFSG) was established under China's G20 Presidency in 2016 to advance this work. The mandate of the GFSG was expanded in 2018 under Argentina's G20 Presidency to become the Sustainable Finance Study Group (SFSG). The SFSG broadly understands sustainable finance as financial services, products, processes as well as institutional and market arrangements that contribute directly and indirectly to the delivery of the Sustainable Development Goals (SDGs). The SFSG is focusing on pursuing positive environmental impacts of investments that could also generate social and economic co-benefits (e.g., job creation, growth enhancement, and technological development).

Sustainable finance has developed at a considerable pace when measured against various yardsticks. Financial systems are increasingly aligned to sustainable development.¹ Sustainable finance has also become an established part of the G20 and other international fora. Sustainability related considerations and more recently, the Sustainable Development Goals (SDGs), are increasingly factored into investment decision-making and product development in a growing number of financial institutions including pension funds, banks and insurance companies. Related products, such as green bonds and other sustainability linked investment products and tools are growing at a rapid rate.

Despite the encouraging momentum,² the deployment of private capital for sustainable finance is still relatively limited. Several studies have concluded that achieving the SDGs will require a significant increase in the quantum of sustainable investment from current levels. It has been estimated that investment in the range of US\$5 trillion to US\$7 trillion will be required each year to deliver the SDGs by 2030 yet current flows are far smaller.³ The conversation around sustainable finance is not just about the quantum of finance required, but also the type. There is broad consensus that public finance alone will be insufficient to meet these requirements. Public finance is constrained by increasingly stretched public balance sheets in many countries and accordingly the role of private finance will be key for the successful implementation of the SDGs.

The G20 GFSG and SFSG have been looking at ways to overcome a variety of institutional and market barriers to scaling up private finance over the last three years. Seven options were outlined in the G20 Green Finance Synthesis Report released at the Hangzhou G20 Leader's Summit in September 2016.⁴ The Green Finance Progress Report assessed progress in the first 12 months following the Hangzhou Summit in 2016 against these seven options.⁵ This non-exhaustive report is also broadly organized around those seven options, and focuses on progress in sustainable finance developments over the subsequent 12 month period from the Hamburg G20 Summit in July 2017 to the current date.

The focus of this review is on developments in G20 members while recognizing that action has also been taken in many non-G20 countries. The scope also includes innovations by international organizations and examples of international cooperation. The seven options outlined in the 2016 Green Finance Synthesis Report are listed below. The analytical lens used in this report has been broadened from 'green' to 'sustainable' to align with the mandate of the SFSG in 2018.



- 1 Provide strategic policy signals and frameworks;
- 2 Promote voluntary principles for green finance;
- 3 Expand learning networks for capacity-building;
- 4 Support the development of local green bond markets;
- 5 Promote international collaboration to facilitate cross-border investment in green bonds;
- 6 Encourage and facilitate knowledge sharing on environmental and financial risk; and
- 7 Improve the measurement of green finance activities and their impacts.

The remainder of this report will look at broad emerging trends in the sustainable finance policy arena. It will then focus on a selection of emerging trends in sustainable financial markets before concluding with a stock take of examples of progress against the seven options outlined above. It should be noted that much of the material that follows can be challenging to assess, and that not every policy measure or market innovation can be translated into a ranking, number or rating.

Material has been surfaced through meetings, including with the SFSG, expert interviews and desk-based research. The findings are non-exhaustive, but the intention is to highlight a selection of topics that have become more prominent over the past 12 months in the eyes of sustainable finance practitioners.



2 TRENDS IN SUSTAINABLE FINANCE POLICY AND MARKET DEVELOPMENT



At the request of the Argentina Presidency, UN Environment has been monitoring sustainable finance policy progress as well as broader market developments over the past year. An internal repository of measures curated by UN Environment allows the number, function and characteristics of financial policy and regulatory measures to be assessed. Examples of these measures across G20 members are covered in section 4.

A basic framework to help understand sustainable finance development was identified in the 2017 Green Finance Progress Report. It highlighted three mutually reinforcing trends: (i) increasingly systemic national action, (ii) greater international cooperation, and (iii) increased market leadership at the individual and collective level. The 2017 report noted that the confluence of these trends resulted in a measurable increase in flows of green finance. While this ‘triple helix’ continues to provide a useful lens to understand the complex dynamics relevant to scaling sustainable finance,⁶ 2018 has been a year where momentum driven by sub-national initiatives has been prominent alongside national developments. Examples include momentum from initiatives that have been organized around financial centres (such as Financial Centres for Sustainability (FC4S) network), types of regulators (such as the Sustainable Insurance Forum),⁷ megacities (such as the C40 Cities initiative)⁸ and states (such as Global Action Climate Summit hosted by the Governor of California).⁹

At the coarsest level of analysis, it is clear that there is continuing momentum across the global sustainable finance policy arena. Although policies are not additive and assessing aspects of their effectiveness can be challenging, several observations can be made regarding the characteristics of sustainable finance policy innovation. There is growing evidence that demonstrates the sustainable finance policy over the last year has been characterized by strong growth, increased scope, and greater maturity.

- **Strong growth:** The ultimate impact of policy is not a linear function of the number of measures implemented. Nonetheless, there has been a significant increase in the number of measures implemented across an increasing number of jurisdictions. Sustainable finance measures doubled globally between 2013 and the end of 2017 from 131 measures to 267. The number of jurisdictions that have implementing sustainable finance policies now totals 53 including all G20 members.¹⁰
- **Increased scope:** There is emerging evidence of increasing scope on several fronts over the last few years. While no single metric can adequately capture such developments, relevant indicators include: (i) a clear rise at national level in the number of system level initiatives relative to measures focused on sub-sectors of the financial system. System level measures rose from 10% of total measures implemented in 2013 to become the single most significant type of measure by the end of 2017, representing over 25% of all measures,¹¹ (ii) a rapid increase in the prevalence of regional and international measures over the last few years, which quadrupled globally in the period 2013-2017,¹² (iii) evidence that a growing spread of sub-national, regional and international initiatives including many G20 members are crowding in a broader range of stakeholders – including the private sector and civil society – through increasingly inclusive process mechanics,¹³ (iv) evidence of the rapid emergence of sustainable finance as multiple

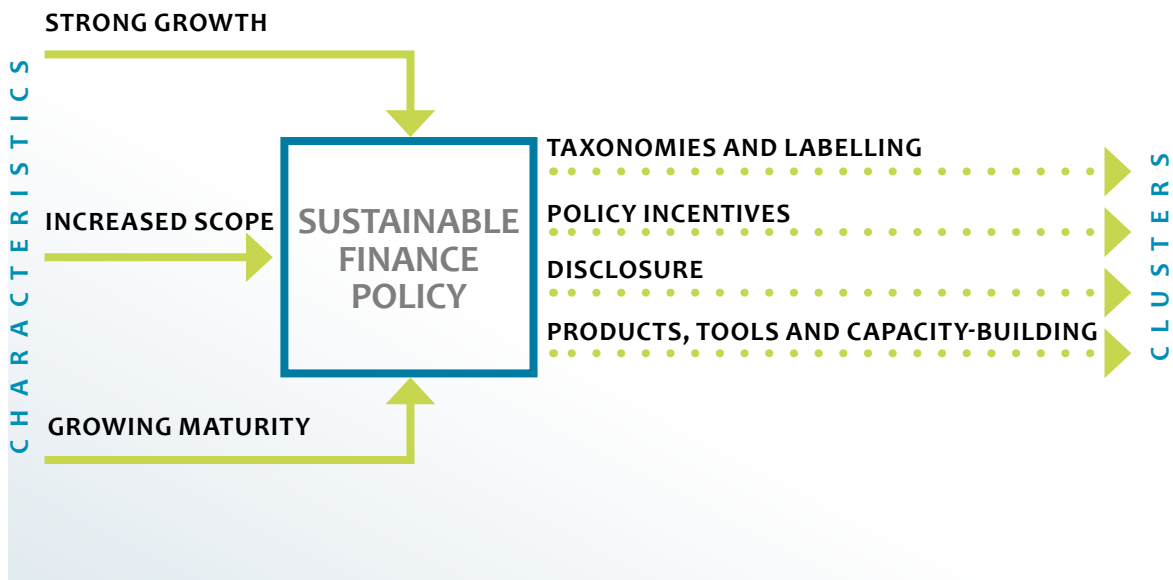


connected strands of work increase in number within single fora such as the G20 (see Box 1 below).¹⁴

- ⦿ **Growing maturity:** There are indications of increasing policy and market ‘maturity’ along a continuum. An innovation curve to benchmark progress might start with dialogue at one extreme, advance to policy and/or market innovation and implementation, progress to monitoring and evaluation, and ultimately involve different forms of feedback loops at the furthest end of the continuum. Against such a yardstick, there is evidence of growing maturity at many different levels and scales compared to the findings from the previous year. There are growing examples of activities at the more mature end of the continuum. These include examples such as an international financial centre evaluation (e.g., the Global Green Finance Index launched in 2018),¹⁵ national level evaluation (e.g., 2017 China Green Finance Progress Report),¹⁶ financial architecture evaluation (e.g., the 2018 Progress report on Central Banks and Financial Supervisors (NGFS)¹⁷ or the 2018 Sustainable Stock Exchange Progress Report),¹⁸ process evaluation (e.g., the first status report of the Task Force on Climate-related Financial Disclosures in September 2018)¹⁹ and a range of product level innovations that help increase transparency and establish positive feedback mechanisms (e.g., the development and use of green bond assessment tools in the debt markets and reviews of listed equity).²⁰

Looking beyond the characteristics of the emerging sustainable finance policy landscape, a broad clustering of types of sustainable finance policy has emerged in 2018. Many sustainable finance policy innovations can be grouped into four broad categories. These are: (i) taxonomies and labelling, which help prevent ‘green washing’ or ‘SDG washing’ (ii) policy incentives, which help mobilize private capital, (iii) disclosure, which can help address information asymmetries, and, (iv) products, tools and capacity-building, which can address specific product needs and assist in capacity-building. Specific examples of each can be found in Section 4.

FIGURE 1: SUSTAINABLE FINANCE POLICY LANDSCAPE



3 TRENDS IN SUSTAINABLE FINANCIAL MARKETS



Broad momentum in financial markets is growing. Sustainable finance remains an embryonic topic, but certain areas are experiencing rapid rates of development. While it is clear that the direction of travel is overwhelmingly positive, it remains challenging to accurately quantify and compare progress across financial markets. This stems in part from inconsistencies over definitions, taxonomies and methodologies as well as data gaps across time, asset classes and geography. Box 1 provides some illustrative examples of progress over the last year.

BOX 1. SUSTAINABLE FINANCE INVESTMENT STOCKS AND FLOWS: MID-2017 TO MID-2018

The illustrative examples below cover developments over the last 12 months across a range of financial products and services. Due to challenges highlighted above, no single indicator can be used to measure progress. Collectively, however, they help provide a directional sense for the growth in sustainable finance over different parts of the financial market.

Primary markets (where providers of capital transact with those seeking capital, which is often for investment in or related to the operation of real assets):

- Global green and sustainable loans issued between January and June 2018 totaled nearly US\$17 billion. This is double 2017 full year issuance and four times the volume over the equivalent 2017 six-month period.
- The 2018 Global Impact Investor Network (GIIN) survey covers impact investments where the majority of transactions are in private equity or private debt. Capital invested has grown by 32% and the number of transactions has grown 27% over a five-year period.
- Total green bond issuance broke through the US\$500 billion level in November 2018, 11 years after the first bond was issued.

Secondary markets (where providers of capital transact with other providers of capital, often for investment in financial assets):

- European sustainable funds saw net inflows of €32.1 billion in the first half of 2018, up from €28.8 billion in the previous six months. Sustainable funds in the United States averaged US\$924 million in monthly inflows in the first five months of 2018, a pace that is nearly twice the 2017 average of US\$532 million.
- The number of sustainability funds listed by Morningstar available to US investors increased by over 20% in the first half of 2018, from 235 to 285. Self-labelled fixed income Exchange Traded Funds (ETF) increased from 2 at the start of 2017 to over 12 at the end of 2017.
- An analysis of shareholder voting trends of 4,090 public company annual meetings held between January 1 and June 30, 2018 showed that institutional shareholder support for sustainability proposals increased from 26% in 2017 to 29% in 2018 (19% in 2014).
- The number of Principles of Responsible Investment signatories increased 15% YoY from 1,714 in April 2017 to 1,961 in April 2018.



Financial markets are heterogeneous. From the perspective of delivering sustainability outcomes, not all sustainable financial flows and services are equivalent. The impact of a dollar intermediated through the financial system will vary depending on many factors. It is likely that a day trader with an investment horizon measured in hours will have a very different level of impact for a given unit of capital compared to a sovereign wealth fund with a controlling stake in private company and an investment horizon measured in decades. Similarly, asset classes create impact in distinctive ways. This can be quite different in private markets compared to public markets. Even if investors hold the same securities, such as a portfolio of listed equities, the level of engagement between passive and active management styles can potentially lead to quite different sustainability outcomes. Despite these limitations, it is possible to highlight a selection of areas of innovation in sustainable financial markets that provide an indication of progress over the last 12 months.

The main cross-cutting observation is that sustainable finance is becoming increasingly mainstream. Surveys focused on both public and private markets support this view. Recent data out of the United States highlights that approximately one in four dollars of the US\$46.6 trillion in institutional assets under professional management in the United States is managed according to a sustainable, responsible or impact strategy.²¹ Similar momentum is evident in the private markets. The 2018 Global Impact Investor Network (GIIN) survey covers impact investments where the majority of transactions are in private equity or private debt. The survey results show that the volume of capital invested and number of transactions has grown substantially over a 5-year period.²² Further illustrative examples can be found in Box 1 above.

There are several indications beyond investment flow volumes that sustainable finance is no longer a niche offering in many areas of the financial markets. There is emerging evidence that a diverse range of larger financial actors around the world are integrating elements of sustainability into financial decision-making in both public and private financial markets. This includes development banks,²³ institutional investors,²⁴ commercial banks,²⁵ insurers,²⁶ and some of the largest private equity firms.²⁷ There is also emerging evidence of increasing integration by providers of financial services including by credit ratings agencies,²⁸ stock exchanges,²⁹ banks,³⁰ and data providers³¹ that sustainability considerations are being embedded into their core business offerings which includes data, product, valuation and risk methodologies. This mainstreaming is being driven by a number of cross-cutting and interrelated factors. While many factors might be responsible for this trend, the emergence of a universal framework for sustainability and improved data were repeatedly surfaced as key drivers.

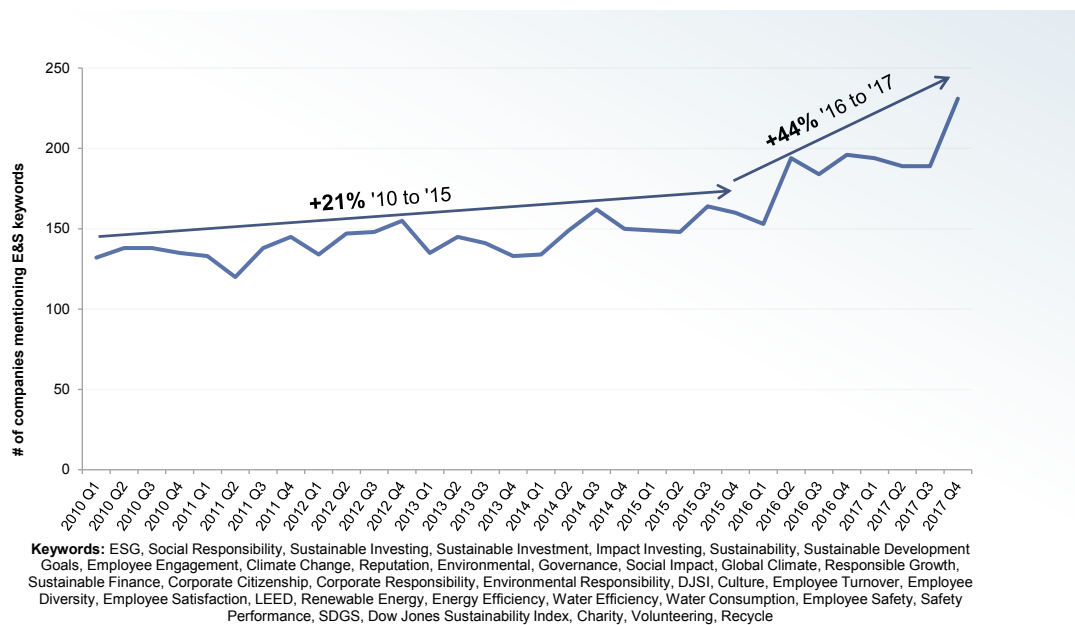
A universal framework. The SDGs are increasingly becoming a framework around which actors along the entire investment chain are organizing themselves. This is broadening the sustainability dialogue beyond a focus on inputs, processes and risks to one where actors increasingly consider sustainability outcomes. Examples where SDG-related frameworks have been implemented can be found at many points along the investment chain. Primary lenders, such as banks, are organizing around the SDGs at scale. In Paris in October 2018, the Principles for Responsible Banking were launched which were driven by 28 banks from 5 continents. These principles will increase alignment with the SDGs.³² In the investment space, asset owners and managers are increasingly developing investment strategies aligned with the SDGs. This is happening both internationally, through networks such as the Principles for Responsible Investment,³³ but also at national level.³⁴ There is growing SDG related innovation at the level of the financial product, where there are an increasing number of SDG-related equity and debt products.³⁵ Nearly 40% of green, social and sustainability bonds issued between January and July 2018 were aligned with the SDGs.³⁶ At the downstream end of the investment chain, various initiatives are under way to measure impact. A new initiative backed by 29 signatories representing US\$1 trillion in managed assets supported the Stockholm Declaration, which will develop methodologies to measure investor's impacts related to the SDGs.³⁷

Improved data. Given the nature of the SDGs, there is a need for better data to help deliver sustainability outcomes through financial decision-making. There is growing evidence that sustainability data relevant

to financial decision makers is increasing in quality, consistency, and is becoming more relevant. Drivers of this trend include:

- Consensus building and consolidation.** A growing number of multi-stakeholder initiatives are developing sustainable finance taxonomies and definitions. These include the EU technical expert group on sustainable finance³⁸ and a taxonomy initiative being coordinated through the Sustainable Banking Network and Tsinghua University’s Green Finance Leadership Programme involving over 35 countries.³⁹ There is also growing consolidation among providers of ESG data to financial markets with a number of mergers and acquisitions amongst leading data platforms and providers.⁴⁰
- Forward-looking data.** The finance sector is increasingly pivoting from using historical high-level, aggregated, static, backward-looking data, to using more granular, higher-frequency, geo-spatial and forward-looking data in some sectors. The relationship between the availability of better data and the uptake of sustainability scenario analysis is mutually reinforcing. The increased use of scenario analysis is being driven by a variety of factors including the development of new tools,⁴¹ the availability of broad recommendations as well as more specific guidance on the use of scenarios at the sector⁴² and national levels.⁴³
- Greater transparency.** There is mounting coverage of sustainability issues by preparers of financial data. In the United States, there has been a 44% growth in S&P 500 companies mentioning aspects of sustainability on quarterly earnings calls from Q1 2016 to Q4 2017 (see Figure 1).⁴⁴ Stock exchanges have been prominent in accelerating progress. Written guidance on ESG disclosure grew 85% and sustainability education for investors and companies grew 65% between 2016 and 2018. The Sustainable Stock Exchange initiative notes a growing trend of regulation mandating disclosure across both developed and emerging market exchanges.⁴⁵

FIGURE 2: NUMBER OF SUSTAINABILITY REFERENCES BY S&P 500 COMPANIES IN QUARTERLY EARNINGS



Source: Goldman Sachs (2018).

The mainstreaming of sustainable finance, which is being driven by factors including a universal framework and better data, along with the policy innovations described in the previous section, are contributing to the broad momentum in sustainable finance. Knowledge of the transmission mechanism between the financial system and sustainability outcomes in the real economy is improving but still imperfect. This will be an increasing area of focus for years to come.



4 PROGRESS UPDATE AGAINST THE 7 OPTIONS



This section provides a non-exhaustive overview of developments from G20 members and related initiatives in the 12 month period since the 2017 G20 Green Finance Progress Report. The 7 voluntary policy options outlined in the 2016 G20 Green Finance Synthesis Report are used as a framework. There has also been momentum across the G20 itself. Box 2 summaries some of the developments across the G20 in 2018, before examples are given of progress against the 7 G20 voluntary options described above.

BOX 2. SUSTAINABLE FINANCE DEVELOPMENTS WITHIN THE G20 IN 2018

Aspects of work related to sustainable finance have been prominent across the G20 in 2018. There are two ‘tracks’ to the G20 and several engagement groups. The first track is the Finance Track. This is where financial and economic matters relevant to G20 Central Bank Governors and Finance Ministers are discussed. The second track is the Sherpa Track. This focuses on broader issues such as political engagement, anti-corruption, development, trade, energy and climate change. Each G20 member is represented at these meetings by a relevant minister and by its designated Sherpa, or emissary. Beyond the Finance and Sherpa tracks, there are several engagement groups. These enrich the G20 agenda and decision-making by drawing on perspectives and expertise beyond its member governments. The current G20 engagement groups include the: Business 20 (B20), Civil 20 (C20), Labour 20 (L20), Science 20 (S20), Think 20 (T20), Women 20 (W20) and Youth 20 (Y20).

Within the Finance Track, discussions relevant to sustainable finance includes the Sustainable Finance Study Group (SFSG) which has focused on three topics in 2018, building on the work of the Green Finance Study Group in 2016 and 2017. The first topic has been looking at creating sustainable assets in the capital markets, the second has been developing sustainable private equity and venture capital, and the third has been exploring potential applications of digital technologies to sustainable finance. Beyond the work of the SFSG, the Eminent Persons Group on Global Financial Governance considered ways in which International Financial Institutions could deliver inclusive and sustainable growth more effectively.

In the Sherpa track, the Climate Sustainability Working Group considered a range of relevant topics including aligning climate finance to NDCs, and adaptation to climate change and extreme weather, with a focus on the development of resilient infrastructure. The Energy Transition Working Group within the Sherpa Track considered a range of relevant dimensions to sustainable finance as did the Development Working Group, which included a working group on inclusive business.

Examples of work related to sustainable finance within the engagement groups includes a sustainable finance policy brief from the T20 and a working group considering how the international financial and taxation systems related sustainable development.

4.1 OPTION 1: PROVIDE STRATEGIC POLICY SIGNALS AND FRAMEWORKS

Strategic policy signals and frameworks can help reduce perceived policy uncertainties for sustainable investment and thereby help accelerate the development of sustainable finance.

Argentina: The capital market regulator, *Comisión Nacional de Valores*, developed ‘Environmental & Social Impact Financing Guidelines’.

Australia: Parliamentary Inquiry undertaken into carbon risk disclosure⁴⁶ and the Council of Financial Regulators (CFR) set up a Climate Change Working Group in November 2017 to consider and coordinate actions to address the financial risks of changing climate, and society’s response to such changes, for the Australian financial system.⁴⁷ A statement of support has been released to create a sustainable finance roadmap for Australia and New Zealand.⁴⁸

Canada: The Canadian Securities Administrator intends to develop new guidance and initiatives to educate issuers about the disclosure of climate change-related risks, opportunities and financial impacts.⁴⁹

China: The Asset Management Association of China issued official guidelines for green investment in November 2018. These cover investment methodologies, investing strategies, regulations, benchmarks and evaluation.⁵⁰

EU: The European Commission launched its action plan on Sustainable Finance launched in March 2018.⁵¹

France: Issued the French Strategy for Green Finance in December 2017.⁵²

Germany: Two existing sustainable finance initiatives under the Deutsche Börse and Hessian Ministry of Economics merged to create the Sustainable Finance Cluster in Frankfurt in April 2018.⁵³

Japan: The Government Pension Investment Fund announced it will invest 10% of its assets in ESG-tilted indices.⁵⁴

Kingdom of Saudi Arabia: The Public Investment Fund of the Kingdom of Saudi Arabia and the Softbank Vision Fund will work together to implement ‘Solar Energy Plan 2030’.⁵⁵

Mexico: The National Commission of the Savings System for Retirement, the regulatory body of the Retirement Fund Funds (AFORES), encouraged the integration of ESG (Environmental, Social and Governance) in investment decision-making.⁵⁶

Russia: A working group set up by the Government is developing a concept for a green bank.⁵⁷

Singapore: Launched a report on Singapore’s potential role as green finance hub in ASEAN and Asia in November 2017.⁵⁸

South Africa: The National Treasury-convened Working Group of financial sector regulatory agencies and industry associations is developing a framework document on sustainable finance;⁵⁹ the Development Bank of Southern Africa is establishing a Climate Finance Facility as part of an initiative to develop a green bank.⁶⁰

South Korea: Korea Investment Corporation (KIC), the sovereign wealth fund of South Korea, is set to commit US\$300 million to an environmental, social and governance (ESG) investment fund.⁶¹

UK: The UK's Green Finance Taskforce commissioned by the government released their recommendations in March 2018⁶² and in September 2018, the Department for Work & Pensions clarified the responsibility of pension fund trustees on matters including those linked to sustainability.⁶³

INTERNATIONALLY:

- ⦿ Six of the largest sovereign wealth funds, including France and Saudi Arabia, are to develop an ESG framework to guide their decisions.⁶⁴
- ⦿ The International Development Finance Club pledged, inter alia, to redirect financial flows in support of transitions towards low-carbon and climate resilient sustainable development.⁶⁵
- ⦿ India and the UK jointly co-invested over GBP 200 million in a new private equity fund targeting renewable energy and clean technology.⁶⁶
- ⦿ Six leading Multi-lateral Development Banks agreed in December 2017 to align their financial flows with the goals of the Paris Agreement in addition to other on-going work on areas such as awareness raising.⁶⁷
- ⦿ The Sustainable Insurance Forum/International Association of Insurance Supervisors Joint Issues Paper on Climate Change Risks to the insurance sector.⁶⁸
- ⦿ UN Secretary-General launches task force on digital financing of Sustainable Development Goals in November 2018.⁶⁹

4.2 OPTION 2: PROMOTE VOLUNTARY PRINCIPLES FOR GREEN/SUSTAINABLE FINANCE

Voluntary principles take advantage of market-led opportunities that allow the advancement of sustainable finance without the potential cost and delays associated with some regulations.

Argentina: The BYMA stock exchange has signed a letter of commitment with the United Nations Sustainable Stock Exchanges initiative.⁷⁰

INTERNATIONALLY:

- ⦿ A multi-stakeholder partnership, including the European Commission, the EIB and WWF launched the Blue Economy Finance Principles in March 2018.⁷¹
- ⦿ Building on a recommendation from the 2016 G20 Green Finance Synthesis Report, a core group of 25 banks from over 20 countries is leading the development of some global principles for responsible banking. This initiative is being supported by UNEP Finance Initiative. An accompanying accountability framework will also be developed.⁷²
- ⦿ A multi-stakeholder partnership led by the Loan Market Association, supported by the Asia Pacific Loan Market Association and ICMA launched the Green Loan Principles in March 2018.⁷³
- ⦿ The World Federation of Exchanges (WFE) published a set of 5 WFE Sustainability Principles in October 2018.⁷⁴
- ⦿ The IFC are developing Operating Principles for Impact Management. The initial consultation period is open to December 2018.⁷⁵
- ⦿ 6 Sovereign Wealth Funds, including the Kingdom of Saudi Arabia's, launched the One Planet Sovereign Wealth Fund Framework in July 2018.⁷⁶

4.3 OPTION 3: EXPAND LEARNING NETWORKS FOR CAPACITY-BUILDING

Awareness of the benefits and opportunities associated with sustainable finance is low in many countries. Learning networks can facilitate sustainable finance activities, improve information flows, and can help to improve analytical capabilities.

Argentina: The financial regulator, Comisión Nacional de Valores (CNV), is launching a sustainable finance investor awareness campaign.

China: The Global Green Finance Leadership Program held its inaugural program in Beijing and Huzhou in May 2018. It attracted 120 participants from 35 countries (mostly developing countries). Participants proposed to launch 9 working groups to further develop the network.⁷⁷

Germany: The Green and Sustainable Finance Cluster was launched in April 2018. It is a merger of the Accelerating Sustainable Finance Initiative of Deutsche Börse, and the Green Finance Cluster Frankfurt of the Ministry of Economic Affairs for Hesse.⁷⁸

Indonesia: Eight national banks were the initial signatories of the Indonesia Sustainable Finance Initiative signed in May 2018.⁷⁹

INTERNATIONALLY:

- The Central Banks and Supervisors Network for Greening the Financial System was launched. This brings together the Banco de Mexico, the Bank of England, the Banque de France and Autorité de Contrôle Prudentiel et de Résolution (ACPR), De Nederlandsche Bank, the Deutsche Bundesbank, Finansinspektionen (The Swedish FSA), the Monetary Authority of Singapore, the People's Bank of China and Banco de España.⁸⁰
- The International Network for Financial Centre for Sustainability was launched in September 2017 and held its inaugural meeting in Milan in April 2018 in association with the Government of Italy. Inaugural membership included financial centres from Canada, China, France, Germany, Italy, Korea, Switzerland and the UK.⁸¹
- The India-UK Financial Partnership launched a workstream on green finance.⁸²
- Japan's Government Pension Investment Fund and the World Bank Group formalized a partnership to scale sustainable finance in October 2017.⁸³
- More than 30 financial institutions have joined UNEP FI's network to collaborate on building capacity to implement voluntary recommendations published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The initiative seeks to develop consistent, comparable approaches to assessing the potential impacts of climate change on core lending, investment and underwriting businesses.⁸⁴
- The International Organisation of Securities Commissions (IOSCO) created a sustainable finance network for its members in October 2018.⁸⁵

4.4 OPTION 4: SUPPORT THE DEVELOPMENT OF LOCAL GREEN/SUSTAINABLE BOND MARKETS

Local sustainable bond markets provide an additional source of long-term sustainable finance to bank lending and equity finance. This is especially valuable in countries where demand for sustainable infrastructure investment is high but supply of long-term bank loans is limited.

Argentina: Issues the first green bond by a private financial institution.⁸⁶

Chile: The Santiago Stock Exchange issues green bond guidelines in April 2018.⁸⁷

China: The People's Bank of China (PBoC) and China Securities Regulatory Commission (CSRC) jointly released new guidelines for green bond verifiers and verification activities in China in December 2017.⁸⁸

India: Develops guidelines for onshore green bonds.⁸⁹

Indonesia: Issued a 5-year US\$1.25 billion green sukuk in February 2018.⁹⁰

Mexico: The Consejo Consultivo de Finanzas Climáticas (Climate Finance Advisory Group) launched the “Green Bonds Principles MX” that are consistent with CBI and ICMA principles at the beginning of 2018.⁹¹

Spain: The City of Barcelona issues green and social bonds with a EUR35 million notional⁹² and the community of Madrid issued a sustainable bond for EUR1 billion.⁹³

US: Moves to top of green bond issuance in 2017 with over US\$40 billion.⁹⁴

Japan: Tokyo Stock Exchange launches new platform for green and social bonds.⁹⁵

4.5 OPTION 5: PROMOTE INTERNATIONAL COLLABORATION TO FACILITATE CROSS-BORDER INVESTMENT IN GREEN/SUSTAINABLE BONDS

Opportunities for cross-border investment in sustainable bonds can help reduce the funding costs of sustainable bonds, potentially enhance the return of global investors and support the development of local bond markets.

INTERNATIONALLY:

- **Argentina-Mexico:** The Buenos Aires Stock Exchange (BCBA) and the Mexican Stock Exchange agreed to work together in the development of environmental markets. BCBA relaunched its Sustainable Finance Unit (UFS).⁹⁶
- **ASEAN countries, including Singapore and Indonesia:** published the ASEAN Green Bond Standards (AGBS) in November 2017.⁹⁷
- **BIS:** Released paper on green bond standards and certification in September 2017.⁹⁸
- **Brazil-UK:** The UK and Brazil launched a Green Finance Partnership in August 2017.⁹⁹
- **China-EIB:** The China Green Finance Committee and the EIB issued a joint white paper comparing green bond standards internationally to help increase consistency of definitions and standards.¹⁰⁰

4.6 OPTION 6: ENCOURAGE AND FACILITATE KNOWLEDGE SHARING ON ENVIRONMENTAL AND FINANCIAL RISK

The linkages between environmental factors and financial risks are complex and often involve the development of new capacities which can be challenging, especially for small and medium-sized financial firms. Sharing knowledge therefore has elements of a public good.

Australia: The Australian Prudential Regulation Authority launches the Climate Change Financial Risk Working Group.¹⁰¹

Brazil: The Brazilian Banking Federation (FEBRABAN) recommended that its members use carbon pricing tools.

Canada: Launches Expert Panel on Sustainable Finance.¹⁰²

Mexico: Development banks in Mexico have started to implement environmental and social risk management systems including Bancomext (September 2017) and FIRA (May 2018) with implementation in other development banks including Banobras, NAFIN and SHF under way.

UK: The Bank of England is undertaking a review of climate-related risks to the UK Banking Sector, building on the 2015 insurance review.¹⁰³

US: California Department of Insurance has undertaken a climate-related financial risk stress test and analysis of insurance companies' investments.¹⁰⁴

Switzerland: The results of climate compatibility testing of Swiss pension funds and insurance companies was released in October 2017.¹⁰⁵

INTERNATIONALLY:

- The Task Force on Climate-related Financial Disclosures Hub was launched in April 2018.¹⁰⁶
- The first-ever International Climate Risk Conference for Financial Supervisors was held in Amsterdam in April 2018. Co-organizers included DNB, Banque de France/ACPR and the Bank of England under the aegis of the NGFS.¹⁰⁷
- The International Association of Insurance Supervisors (IAIS) released an issues paper in July 2018 marking the first effort by an international financial standard setting body to assess how climate change risks may affect financial institutions.¹⁰⁸

4.7 OPTION 7: IMPROVE THE MEASUREMENT OF GREEN/SUSTAINABLE FINANCE ACTIVITIES AND THEIR IMPACTS

Greater clarity on sustainability definitions, as well as the measurement of sustainable finance flows and associated impacts is important to guide market decisions and enable policymakers and regulators to achieve their goals.

Argentina: Bolsas y Mercados Argentinos (BYMA), in cooperation with the Inter-American Development Bank, launched Argentina's first sustainability index that will recognize leading companies in the field of sustainability.

China: Progress is assessed against the 35 measures introduced in August 2016 by the State Council.¹⁰⁹

EU: The European Commission delivered the first concrete legislative proposals linked to the Commission Action Plan on Sustainable Finance, which includes several features to assist in the measurement of sustainable finance activities including a EU classification system ('taxonomy') and low carbon benchmarks.¹¹⁰

Mexico: A pilot related to the monitoring, reporting and verification of green finance by commercial (Banorte, Citibanamex, HSBC) and development banks (BANCOMEXT, FIRA) to measure green finance activities and their impacts has been launched.¹¹¹

INTERNATIONALLY:

- Global Green Finance Index launched in March 2018 assessing progress on green finance within global financial centres.¹¹²
- The Reporting 3.0 initiative is launching a blueprint in June for integrated financial statements focused on multi-capital or inter-capital accounting. The Blueprint has been developed under a working group of 22 international experts including the IIRC, SASB, CIMA, ACCA, World Bank, UNEP FI and UNCTAD and ISAR.¹¹³

5 CONCLUSION

It is clear the past 12 months has seen a surge in sustainable finance momentum. While the ‘triple helix’ of increasingly systemic national action, greater international cooperation, and increased market leadership is still valid, sub-national initiatives have become increasingly visible over the last year.

Within the policy arena, there is growing evidence that sustainable finance policy has been characterized by strong growth, increased scope, and greater maturity. Looking beyond the characteristics, a broad clustering of types of sustainable finance policies has emerged in 2018. These are taxonomies and labelling, policy incentives, disclosure, and products, tools and capacity-building,

In financial markets, the standout feature is one of sustainable finance becoming increasingly mainstream. Larger actors within the financial system are increasingly aligning themselves with sustainability outcomes and there is associated integration of sustainability into a range of financial services including data, product and risk methodologies. Sustainable finance practitioners have highlighted that this process has been facilitated by a variety of factors including the emergence of the SDGs as a universal framework and improved quality, consistency and relevance of data in this process.



ENDNOTES

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