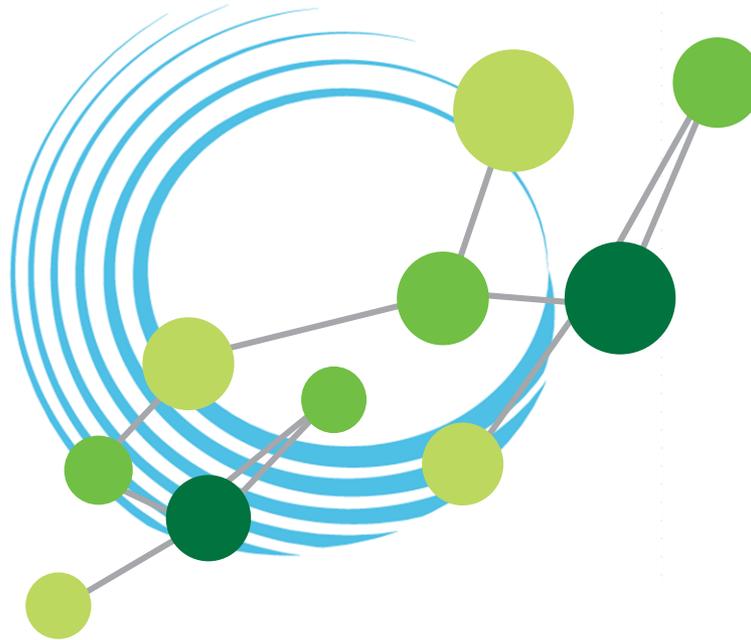


THE FINANCIAL SYSTEM WE NEED

ALIGNING THE FINANCIAL SYSTEM WITH SUSTAINABLE DEVELOPMENT

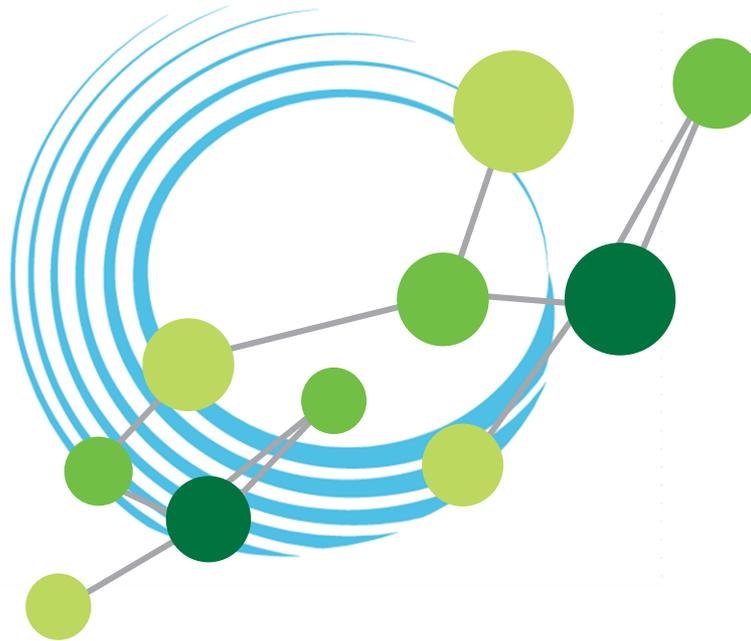
FROM MOMENTUM TO TRANSFORMATION

PRESENTATION TO THE COMMITTEE OF PERMANENT REPRESENTATIVES – MARCH 2018



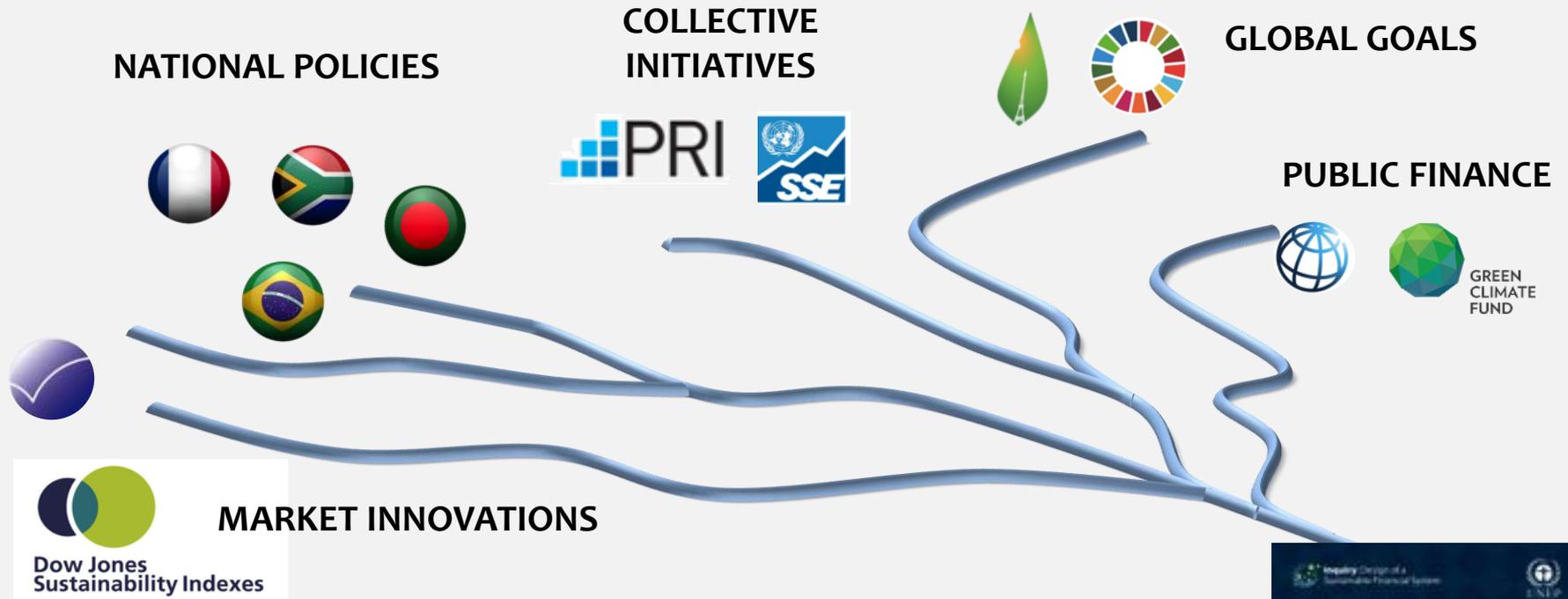
INTRODUCTION

Mahenau Agha



THE INQUIRY

Nick Robins



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





BUILDING A BODY OF RESEARCH AND ANALYSIS



- We have worked with our partners to develop an extensive body of research and analysis, represented in over 120 reports

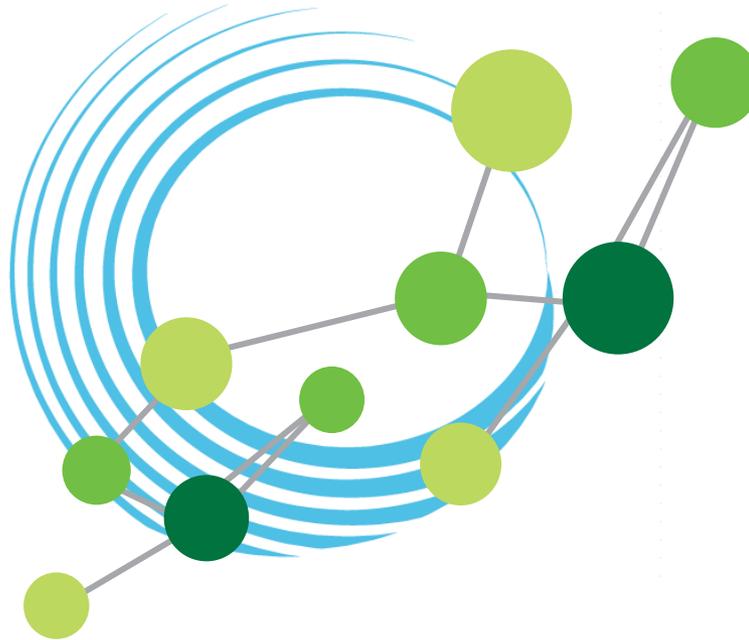


WORKING WITH A BROAD RANGE OF PARTNERS



- We have developed our insights through partnerships with a wide range of stakeholders from developed and developing countries in all regions.





OUR ACTIVITIES

Nick Robins



Three interlocking dimensions:



Blending together in a 'triple helix' of change to generate positive results across the financial system



The Inquiry is working on greening the financial system across more than 20 developing, emerging and developed countries, including:



Argentina: Working with the Ministry of Finance on the development of a strategic stock take on sustainable finance in Argentina.



China: Partnering with the central bank on a green finance task force which presented 14 recommendations, nearly all adopted.



EU: Member of the High-Level Expert Group on Sustainable Finance that provided recommendations for a comprehensive EU strategy on sustainable finance.



Italy: Partnered with Ministry of the Environment on National Dialogue for Sustainable Finance, launched at central bank jointly with finance ministry.



Kenya: Engaging with central bank and bankers association on green finance opportunities including mobile banking.



Mongolia: Working with a range of stakeholders, including the Mongolian Bankers Association, to develop a sustainable finance roadmap.



Morocco: Supporting the implementation of Morocco's Roadmap for Sustainable Finance, including the development of a sustainable insurance strategy with ACAPS.



The Inquiry is working to promote international cooperation on green and sustainable finance policy and regulation with key institutions.



G20: The Inquiry manages the secretariat of the Sustainable Finance Study Group, co-chaired by China & the UK. This was launched in 2016 under China as the Green Finance Study Group & continued under Germany.



G7: Sustainable finance was one of the themes of the G7 Italian Presidency, focusing on finance for small enterprises and the role of financial centres.



Insurance Supervision: The Inquiry manages the secretariat for the Sustainable Insurance Forum, bringing together 20 insurance supervisors to work together on climate change and sustainable development issues.



V20: The Inquiry is working with the 55 most climate vulnerable countries to assess the impact of integrating climate risk into their cost of capital to form the basis for domestic and international policy dialogue.



The Inquiry is working with a range of partners to promote market innovation for green and sustainable finance.



Bond Markets: The Inquiry has partnered with the Government of Nigeria to help launch Africa's first sovereign green bond, working with the Climate Bonds Initiative



Investors: With the Principles for Responsible Investment, the Inquiry generated commitments from leading credit rating agencies to integrate environmental, social and governance factors into their analysis.



Financial Centres: Building on the Italy G7, the Inquiry is the convenor for a new network of Financial Centres for Sustainability, with 17 member from around the world.



Digital Finance: The Inquiry has partnered with China's ANT Financial to form the Sustainable Digital Finance Alliance.



United Nations: The UN Secretary-General presented his strategy on financing the 2030 Agenda in September 2018.

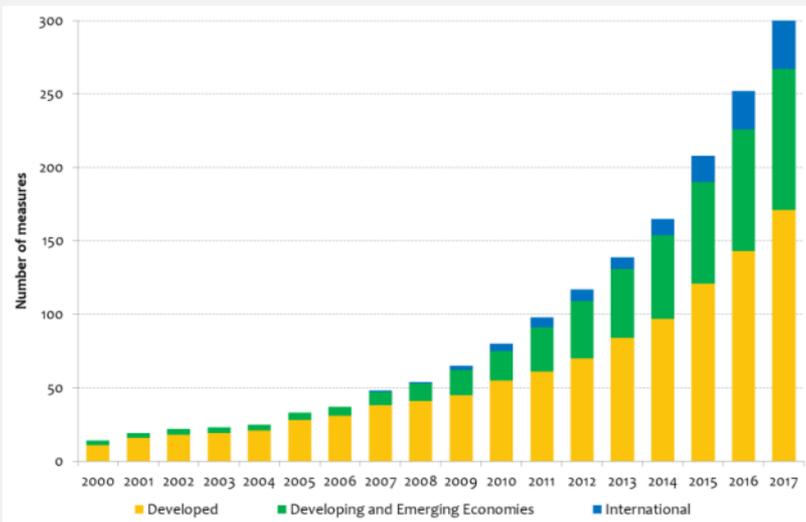


Market expansion: The green bond market has grown from US\$11bn in issuance in 2013 to US\$155bn in 2017.

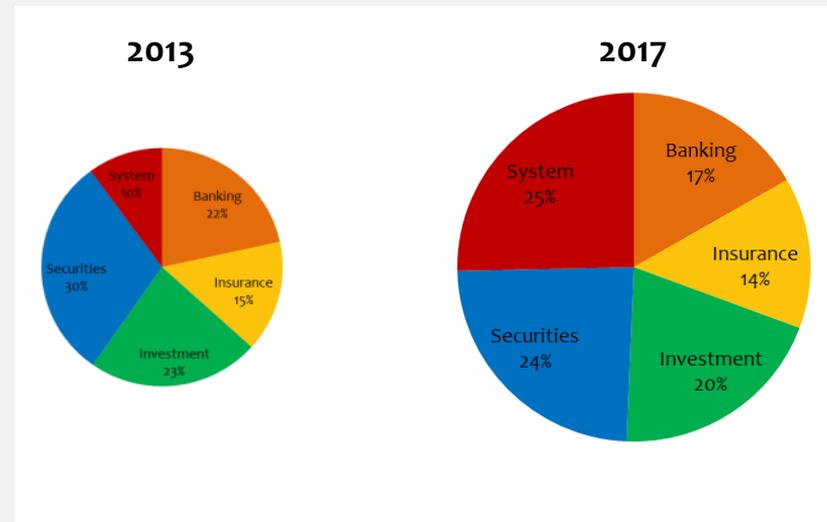


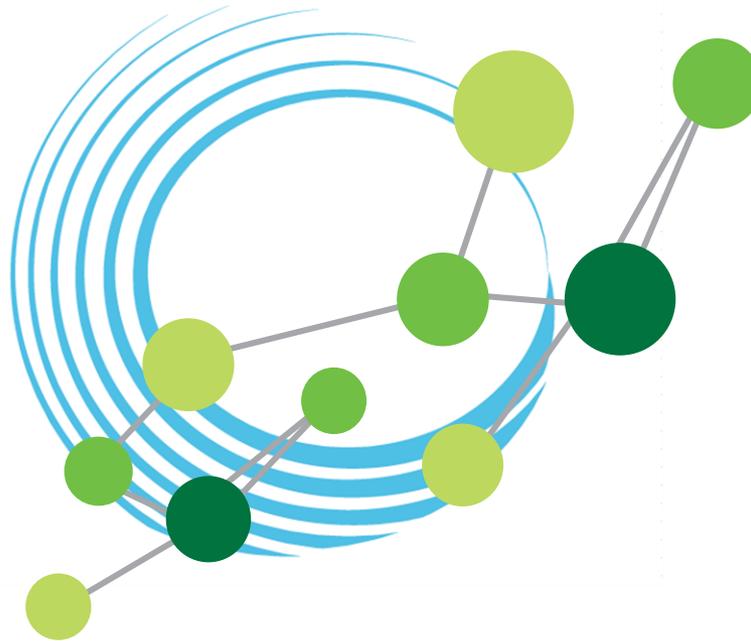
Policy Growth: The number of sustainable finance policies and measures has doubled to 300 between 2013 and 2017, with a strong rise in systemic action.

Policy and Regulatory Measures, 2000-2017



Policy and Regulatory Measures by Asset Class, 2013 vs. 2017





MOMENTUM IS NOT ENOUGH

Simon Zadek

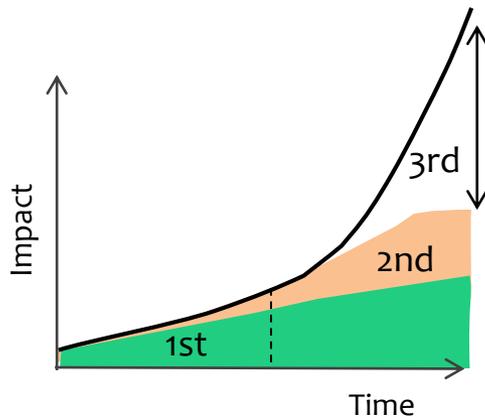


STAGES OF CHANGE

'First-order' paradigm
maintaining adjustments

'Second order' policy shifts
emerging

'Third-order' changes needed –
deeper shifts and disruption



[Based on Peter Hall, 1993]

BARRIERS TO ACCELERATION

INCUMBENTS

Vested interests in existing
valuations, business models

INCREMENTALISM

Tendency towards slow,
marginal adjustments

UNCERTAINTY

Lack of calm to allow more
deliberative approach

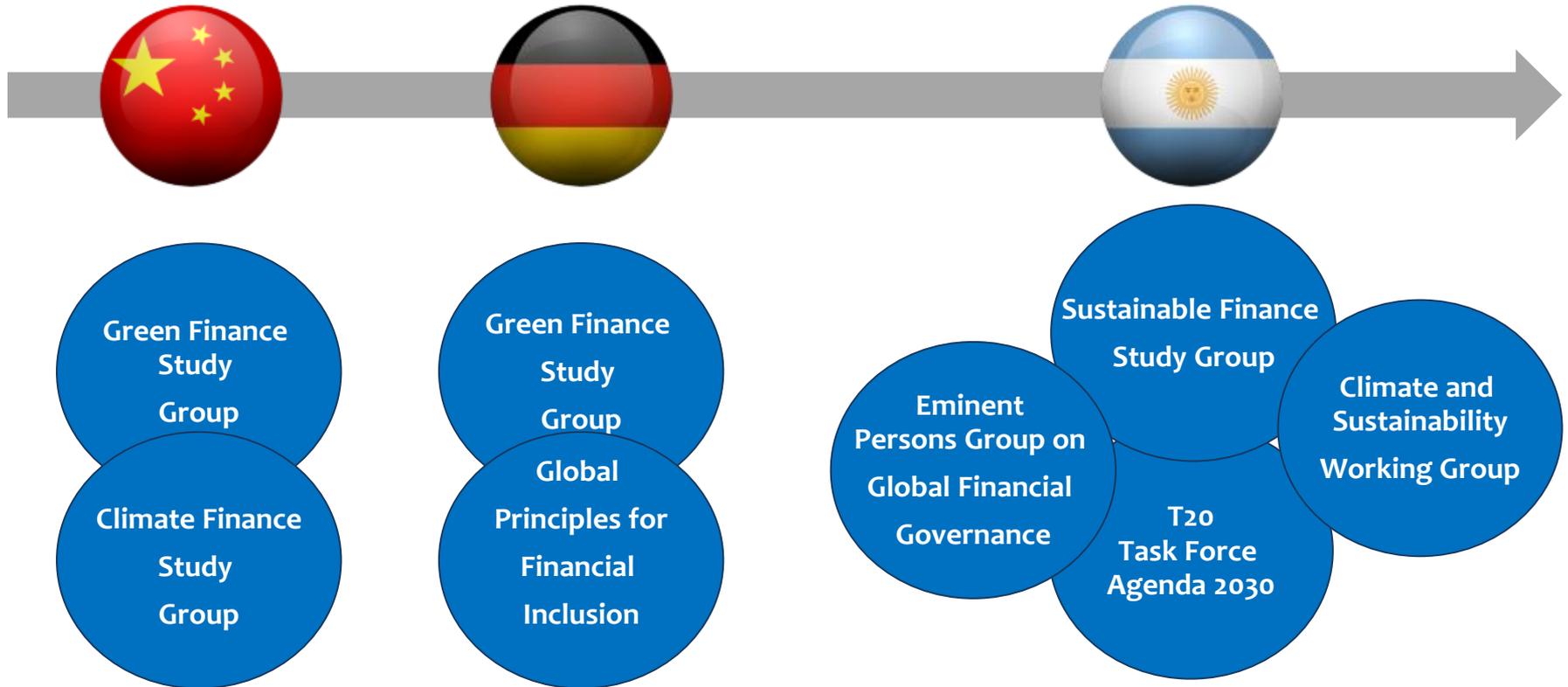
LEVERAGE POINTS

- **National strategies for financial development**
- **Fintech and policy responses.**
- **Public finance**
- **Public awareness**
- **Common methods, tools and standards**

Imagine a financial system ...

... that is resilient and so able to serve its core purpose to serve the long-term financing needs of an inclusive, sustainable economy in the face of growing environmental and other sources of volatility.

SYSTEM-LEVEL ACTIONS: G20 AND FINANCIAL AND ECONOMIC POLICIES



The G20

Has increasingly embraced the sustainable finance agenda, with UN Environment being involved in a broadening set of G20 activities.



Digital finance in the developing world could have a great impact.

Sustainable
Digital Finance
Alliance

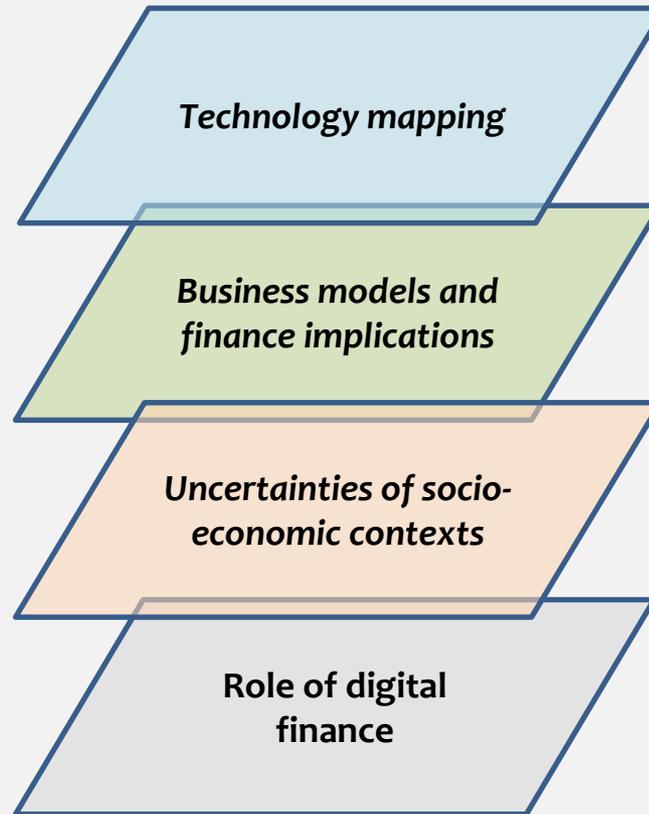
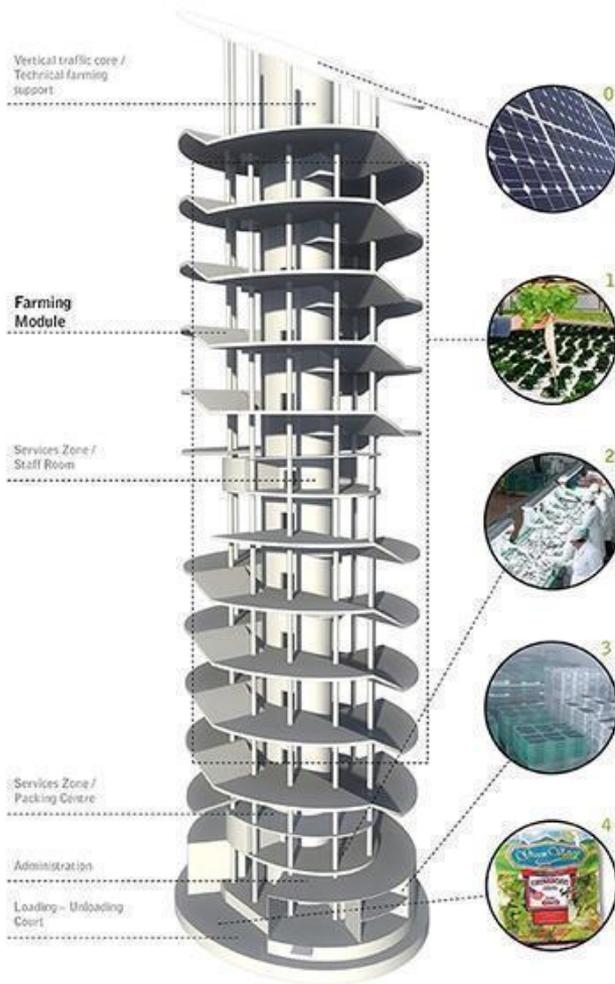


McKinsey&Company | Source: McKinsey Global Institute analysis

The Sustainable Digital Finance Alliance

Was co-founded by UN Environment and Ant Financial Services as a non-profit, public-private partnership to leverage digital technologies and innovations to enhance financing for sustainable development.

SYSTEM-LEVEL ACTIONS: FINANCING TOMORROW'S INFRASTRUCTURE



What will infrastructures of the future look like?

What are implications to business models and infrastructure finance?

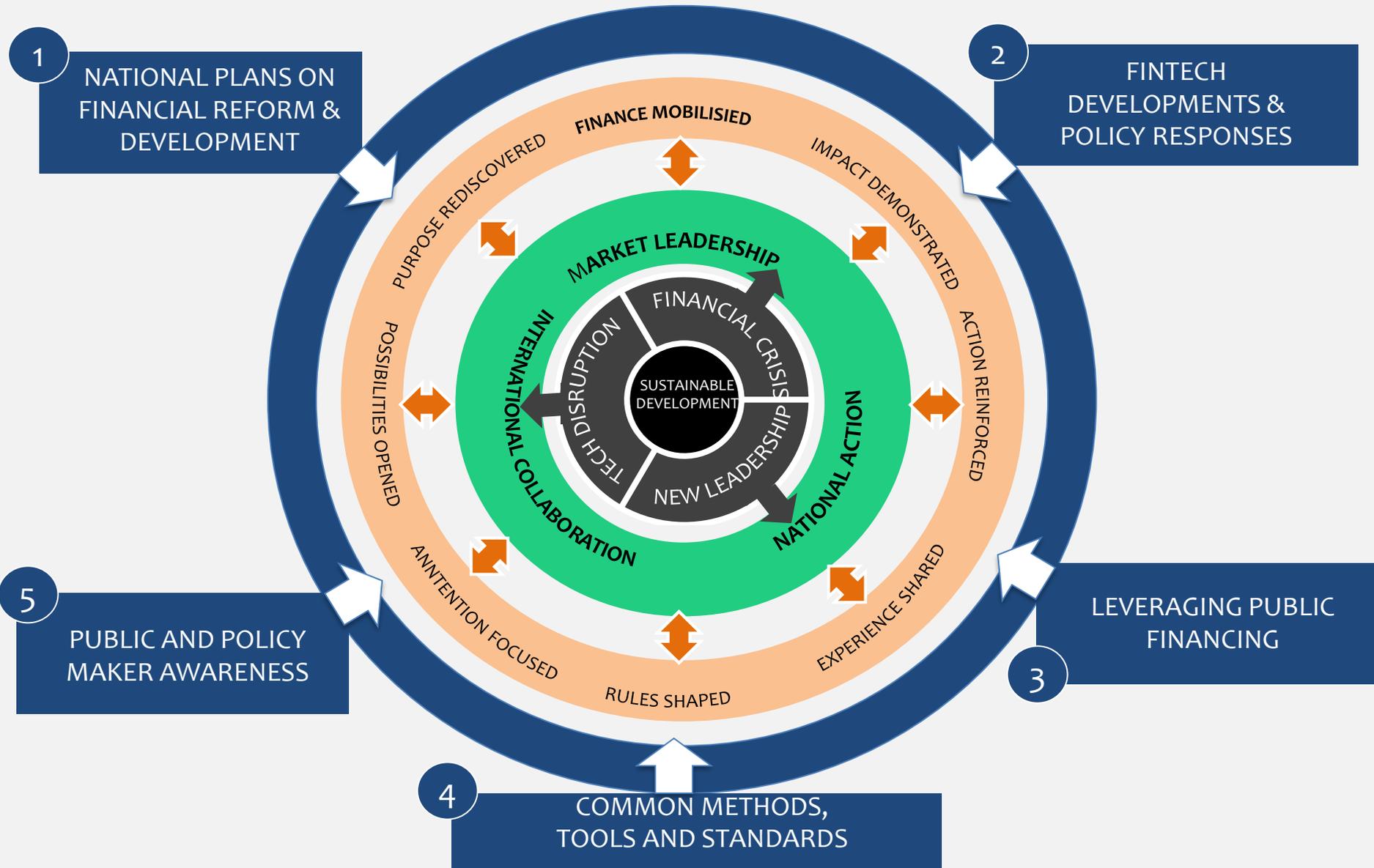
What are potential scenarios of the future?

What are the new financing approaches and impacts to the financial economy?

Infrastructure Futures

Is a partnership initiative involving the UN Environment, the OECD and the World Bank, supported by the German Government, mandated under the German G20 Presidency.

IDENTIFYING KEY INTERVENTIONS





NATIONAL PLANS

By 2020 raise the number of national or regional roadmaps, from 10 to 50, including the major financial centers.

FINTECH & POLICY RESPONSES

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

PUBLIC FINANCING

Assess current fiscal incentives, evaluate public finance effectiveness in shaping sustainable finance markets and.

PUBLIC AND POLICY MAKER AWARENESS

Sustainable finance on agenda of regional and international forums, including the G20 and G7, and developing country coalitions.

COMMON METHODS, TOOLS & STANDARDS

Incorporate an assessment of implications for sustainable development into financial standards and processes.



V20: Ongoing work with the 55 most climate vulnerable countries to assess the impact of integrating climate risk into their cost of capital to form the basis for domestic and international policy dialogue.



G20: Hosting of the Secretariat of the Sustainable Finance Study Group, co-chaired by China & the UK for past 2 Presidencies (China and Germany). This will continue through the Argentine Presidency.



G7: The work on financial centres, started with the G7, will continue and be spun out through a public-private partnership.

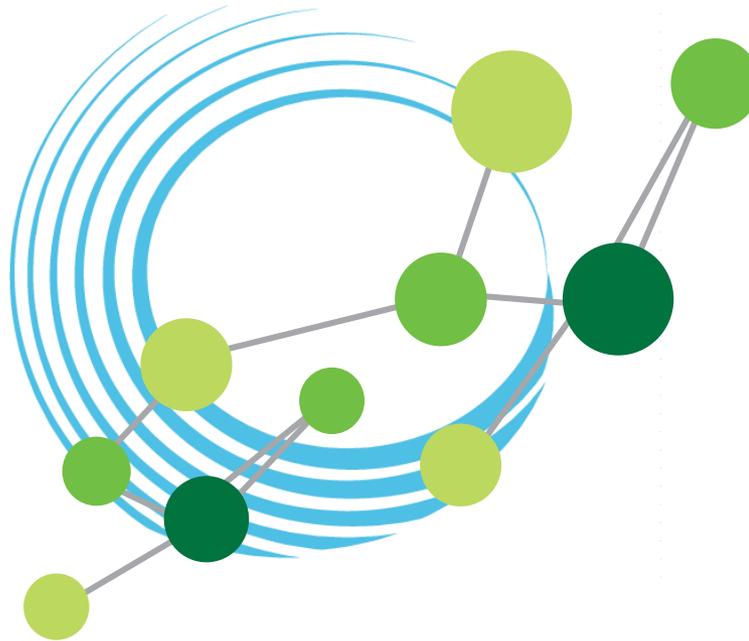


SUSTAINABLE
INSURANCE
FORUM

Insurance Supervision: The club of 20 insurance supervisors working on climate change and sustainable development issues has been formed.



Digital Finance: An independent foundation – Sustainable Digital Finance Foundation - has been set up, with UN Environment as a co-chair.



LESSONS LEARNED

Simon Zadek



MANDATE

CONTEXT

STRATEGIC
ENABLERS

WHAT WE DID

WHAT WE CHOSE NOT
TO DO

UNINTENTIONAL
GAPS

**VALUING WHAT
WORKED**

The Inquiry offers learning opportunities not only about finance but more broadly about making change, insofar that it provides clues as to how other development challenges might be ambitiously addressed.



- **Historic window** to advance changes in the financial system created by a combination of factors.
- **Bottom-up identification of existing innovations** targeted at particular policy challenges, particularly from developing countries.
- **Over-arching narrative** developed iteratively in public through debate, refinement and amplification.
- **Systematisation of innovation** through roadmaps for aligning domestic financial systems with broader sustainability interests and national priorities.
- **Collaboration** between public and private actors to promote smart policy interventions and market innovation.
- **Crowd-in a knowledge armada** of policy and market analysis, innovations and recommendations.
- **Engage with large-scale, ambitious actors** with the weight to influence the system as a whole, such as China and the G20.

Changing the financial system is not like designing a car. The financial system is the archetypical complex, dynamic system, almost organic in its capacity to evolve, yet at breakneck speed driven by fluid markets, technology and the effects of both innovation and herding.



- **Seeking consensus** among key stakeholders either inside or outside of the UN system, to avoid dilution of efforts.



- **Adopting commissioned conclusions and recommendations**, allowing a contestable body of knowledge to emerge.



- **Over-reliance on ‘best practice’** from the world’s most matured financial markets, with many innovations from developing countries.

- **Picking ‘winners’**, or making definitive recommendations, thereby remaining the ‘messenger’ rather than the concluding experts.



- **Programmatizing the work for ourselves**, but rather seeking to crowd in others whenever such standardization become possible.

- **Setting out a ‘blueprint’** of a ‘sustainable financial system’, thereby evading any distracting debate about ‘end-game’ state.

It is uncertain, but doubtful, whether more fully embracing any of these facets of a possible approach would have made us more effective. That said, there may well be room for any or all of these to play a productive role as the topic and practice mature.



- 
- **Sustainability:** in the main focused on environmental and climate aspects, and within that principally on energy and carbon.
 - **Country:** notable gaps, including weak coverage of small island states, and also fragile and war-torn states.
 - **Finance:** focus on private finance to the exclusion of important intersections between public and private finance.
 - **Integrity:** did not consider the nexus between sustainable finance and market integrity issues such as corruption and illicit financial flows.

Some of these omissions are today being picked up by other players, but in some instances remain on the ‘to do’ agenda of the policy research community.



- **Narrative:** shaping a narrative that has validated the need for system change in finance in pursuit of sustainable development.



- **Crowding-in:** crowding-in of independently championed innovations seeking to achieve the underlying purpose.



- **New financial actors:** engaging new actors, notably those governing the financial sector including policy makers, regulators and standard setters.



- **Universalism:** extending the agenda to developed and developing countries alike, and in driving learning from the latter to the former.

Untangling the various aspects of our theory of change to figure out what seems to have worked best runs the danger of losing sight of the linkages and synergies, planned and otherwise.



- **Proximity and Authorising Environment:** UN Environment not being core to financial market policy and practice, yet being an international organization with a strong ‘authorising’ environment.
- **Leadership:** Unusual leadership of both UN Environment and the Inquiry’s leadership team, enabling risk-taking innovations, an entrepreneurial initiative, and access to the financial community.
- **Patient Capital:** Availability of patient capital, from internal UN Environment resources, and a small number of official funders and foundations that accepted and chose to support the underlying approach.

Without all three of these enablers in place working together, the Inquiry almost certainly would not have been created, and if it had would not have achieved as much as it has.



1
WHAT WE DID

Shaping a narrative that validated practice and ambitious action, crowded in innovations, brought in new actors, leveraged major players and processes, and established scaling approaches.

2
WHAT WE CHOSE
NOT TO DO

Blueprinting, recommending singular approaches, picking winners and building scale-through-volume programmes of work.

3
UNINTENTIONAL GAPS

Limited coverage largely to carbon and energy and private finance, and did not have focus on small island or fragile states, or market integrity issues.

4
VALUING WHAT
WORKED

‘Self-evident’ narrative, crowding in innovations and actors, leveraging unilateral interests of major players, and ensuring universalism of coverage.

5
STRATEGIC
ENABLERS

UN Environment as platform for highly leveraged innovation, strategic, risk taking and innovative leadership, and patient funds.

SOME KEY QUESTIONS?



1

DID IT REALLY WORK?

What is the evidence regarding impact, especially a country specific experience, and how can such initiatives be evaluated?

2

SHOULD UN
ENVIRONMENT DO
MORE?

What areas could UN Environment most effectively continue to contribute to?

3

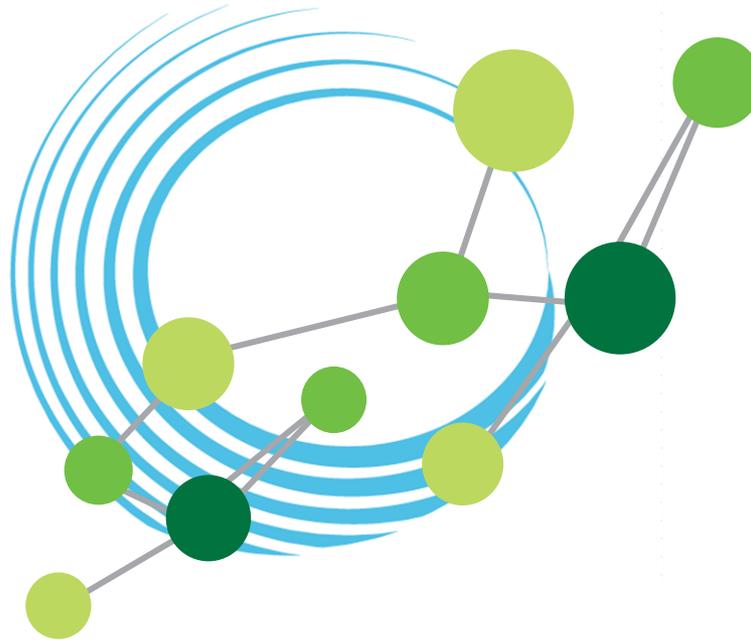
WHERE IS THE
BROADER UN IN THIS
FIELD?

Has the UN's approach to financing been impacted by the Inquiry's work, and if so how?

4

CAN THE INQUIRY'S
APPROACH INFORM
OTHER WORK?

Is the Inquiry's approach really distinct, and if so how might it inform other work areas?



THANK YOU



Mahenau Agha



Nick Robins



Simon Zadek



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