BUILDING A SUSTAINABLE FINANCIAL SYSTEM IN THE EU:
FROM QUIET REVOLUTION TO MAINSTREAM

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Mark Carney, Governor
Bank of England

“Green finance cannot be a niche”

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

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

“Reforming the financial system remains an unfinished business – we have a long way to go in designing a financial system that meets the needs of sustainable development”

John Lipsky, Former Deputy Director, IMF; UNEP Inquiry Advisory Council Member
6 MONTHS ON: AMBITIOUS MOMENTUM

12 December 2015, “Making financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development”

27 February, “We ask the Green Finance Study Group to ... develop options on how to enhance the ability of the financial system to mobilize private capital for green investment.”

31 March, Climate-related Financial Risk Disclosure Task Force presents first report

22 April, EU ECOFIN considers green finance for the first time in its history

“the Paris Agreement moved the option of green finance from the periphery to the core of the future of world capital markets.”

Elizabeth Corley, CEO Allianz
Green finance:
- US$600bn pa to finance green investment; only 15% from public sources
- Green credit reporting indicates 10% of bank lending is green
- Green bond guidelines approved late 2015, US$48 billion issuance this year so far.

Greening China’s Financial System:
- 14 sets of recommendations, fiscal, regulatory, judicial, institutional
- Embedded in 13th Five Year Plan

Green Finance Committee:
- Green Finance Task Force - PBoC/UNEP co-convened
- Green Finance Committee - over 100 private and public financial institutions convened by the People’s Bank of China

"In China, establishing a green finance system has become a national strategy. In the first quarter of 2016, China was responsible for around 50% of the world's green bond issuance. Zhou Xiaochuan, Governor, People’s Bank of China"
**Mandate:** to explore developments in the financial system that will increase the flow of green finance.

Established within the **G20 Finance Track**, making it the business of finance ministers and central bank governors.

**Initial year of work:** foundational, focused on mapping, drawing lessons and highlighting options for national action and international cooperation.

**Focus areas:** banks, bonds and institutional investors, risk assessment and measuring progress.

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**Green Finance Study Group:** launched in Beijing in January 2016, includes all G20 members plus major international organizations.

**Co-chairs:** co-chairs are China and the UK, represented by the People’s Bank of China and the Bank of England.

**Secretariat:** the United Nations Environment Programme (UNEP) manages the platform and coordinate the work program.

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“China’s Presidency of the G20 will provide a rare historical opportunity for creating a green financial system.”

Hank Paulson, Former US Treasury Secretary
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
Advancing Green Competitiveness: expert group established to explore how to best use the financial system to achieve sustainable development

- **Budget Bill:** confirms that financial markets should contribute to sustainable development

- **Environmental Risk:** FSA published study on banks’ internal rules for credit provision from an environmental perspective in 2016

- **Regulatory Mandates:** Government requested FSA to examine how it may contribute to sustainable development through regulatory activities
THE UK: *Prudence and Green Finance*

**Greening the City:** City of London Corporation launched its Green Finance Initiative in January 2016, supported by Department of Energy and Climate Change, and HM Treasury

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

- **Prudential Regulation:** The Bank of England’s PRA has examined the impact of climate on insurance companies, focusing on physical, transition and litigation risks (foundations for action by the Financial Stability Board)

“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
CURRENT ASSESSMENT DOES NOT TAKE SUSTAINABILITY FACTORS INTO ACCOUNT

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

[Source: Y/ZEN GFCI 18]

THE FUTURE? RACE TO DEVELOP AS LEADING GREEN FINANCE HUB

- City of London
- Hong Kong
- Kenya
- Shanghai
- Singapore
- Switzerland
“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

- **EFSI**: mobilized roughly €50 billion – translating to 15% of the €315 billion target of the Juncker plan – with over half of approved projects in sustainability-related areas
- **Capital Markets Union**: Access to finance for SMEs, Appropriate regulatory environment for long-term sustainable investment
- **Long-term investment**: Consultation underway on sustainable investments
- **Corporate Disclosure**: Consultation on guidelines for non-financial reporting
- **Systemic Risk**: ESRB assessment of impact of the transition to a low-carbon economy for financial system health.

Unlike China, Singapore, Hong Kong and a growing number of European countries, the EU does not have an integrating strategy for ensuring that its financial and capital markets will finance a dynamic, productive and inclusive, sustainable economy.
ALIGNING FINANCE

FINANCIAL DEVELOPMENT MISALIGNED

- Low financial development limits growth & social development
- Finance supports growth but erodes local environment
- Dimensions benefits from finance, global environmental damage

IMF Conclusions

FINANCIAL DEVELOPMENT ALIGNED

- Focus on creating enabling financial foundations
- Finance internalizes social and environmental in decision making
- Finance drives balanced, inclusive, sustainable growth

[Source Inquiry, 2015]
[Source Inquiry, 2015 drawing on IMF]
An EU Strategy for Sustainable Finance could help drive synergies between sustainability and economic growth objectives, boosting competitiveness.

Innovation, productivity growth and economic prosperity depends on finance being mobilized to enable a dynamic, zero-carbon, circular, resilient economy.

Today’s financial system is largely detached from the long term needs or success of tomorrow’s economy, and often damages its prospects.

Bottom up, national innovations and international cooperation are showing how to align the financial system with sustainable development outcomes.

Systematic incorporation of social and environmental risks, opportunities and policy imperatives into the financial system is needed to go to scale.
Dimensions of an EU Strategy for Sustainable Finance

An EU Strategy for Sustainable Finance could help drive synergies between sustainability and economic growth objectives, boosting competitiveness

- **Vision**: to evolve a financial system that will finance a sustainable and inclusive economy for Europe.
- **Roadmap**: to build a roadmap to secure the vision by promoting the integration of national and regional market and policy innovation.
- **Forward-looking**: taking account of profound disruptions to the financial system through fintech and other drivers.
- **Harnessing innovation**: building on national and market innovations, drawn from the EU and internationally.
- **Harmonization**: aligning to the EU principles and vision for integrated financial and capital markets.
- **Competitiveness**: balancing actions to gain competitive advantage with the need in some areas to level the playing the field.
- **Collaboration**: between market and policy and regulatory actors to co-design the roadmap and oversee its implementation.
- **Benchmark**: to develop performance indicators that allow progress in achieving the vision to be measured.
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