



**Inquiry:** Design of a Sustainable Financial System



## The Financial System We Need

*Aligning the financial system with sustainable development*

Nick Robins, GLOBE EU, Paris, December 2015



**A systemic approach:** Financing for sustainable development can be delivered through measures focused on the financial system, as well as the real economy.



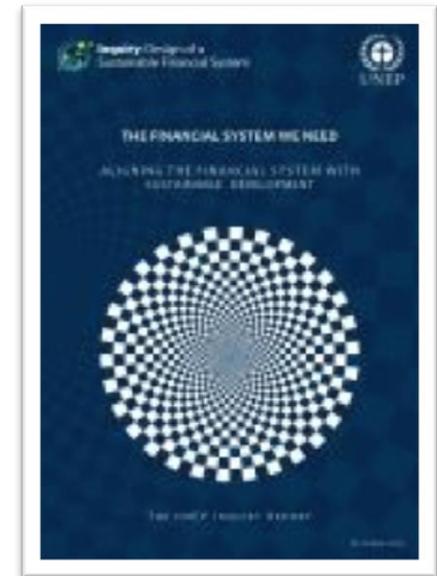
**A quiet revolution:** A growing number of policy innovations have been introduced by both developing and developed countries, demonstrating how the financial system can be better aligned with sustainable development.



**A moment of opportunity:** Systematic national action can now be taken to shape a sustainable financial system, informed by current trends and complemented by international cooperation.

# THE FINANCIAL SYSTEM WE NEED

## IMF/WORLD BANK ANNUAL MEETINGS, LIMA 8 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”*



## MANDATE

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

### FOCUS

Financial system rulemakers – ministries, central banks, regulators, standard setters

Dynamic between market and policy approaches

### ANALYSIS FRAMEWORK

Understanding the rationale for action



### FINDINGS

Focusing on country experience and sector priorities



### NEXT STEPS

Recommendations for national action and international collaboration

### FRAMEWORK FOR ACTION

Packages of policy proposals



### TOOLKIT

38 approaches in four clusters



Upgraded governance

# FOCUS ON PRACTICE



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

 **Canada**  
The Cooperators,  
CIGI

 **US**  
CalPERS,  
SAIS

 **Colombia**  
Ministry of Finance  
IFC

 **Brazil**  
Bankers Federation  
Fundação Getulio  
Vargas

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

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

 **Switzerland**  
Federal Office of Environment,  
SwissRe

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

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

 **Kenya**  
Bankers  
Association  
Central Bank  
IFC

 **India**  
FICCI, NIPFP

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

 **Indonesia**  
Financial Services Authority (OJK)  
IFC, ASRIA



## FINANCIAL ASSETS & ACTORS



**Banking**  
US\$135 tn



**Bonds**  
US\$100 tn



**Equities**  
US\$70 tn



**Investors**  
US\$100 tn



**Insurance**  
US\$29 tn

## PRIORITIES FOR ALIGNMENT

*Real economy  
regulation & pricing*

*Mobilising public  
spending*

*Action within the  
financial system?*

## REASONS FOR ACTION IN THE FINANCIAL SYSTEM

### Managing risk

Inadequate risk management in the financial system may exacerbate environmental & social externalities

### Promoting innovation

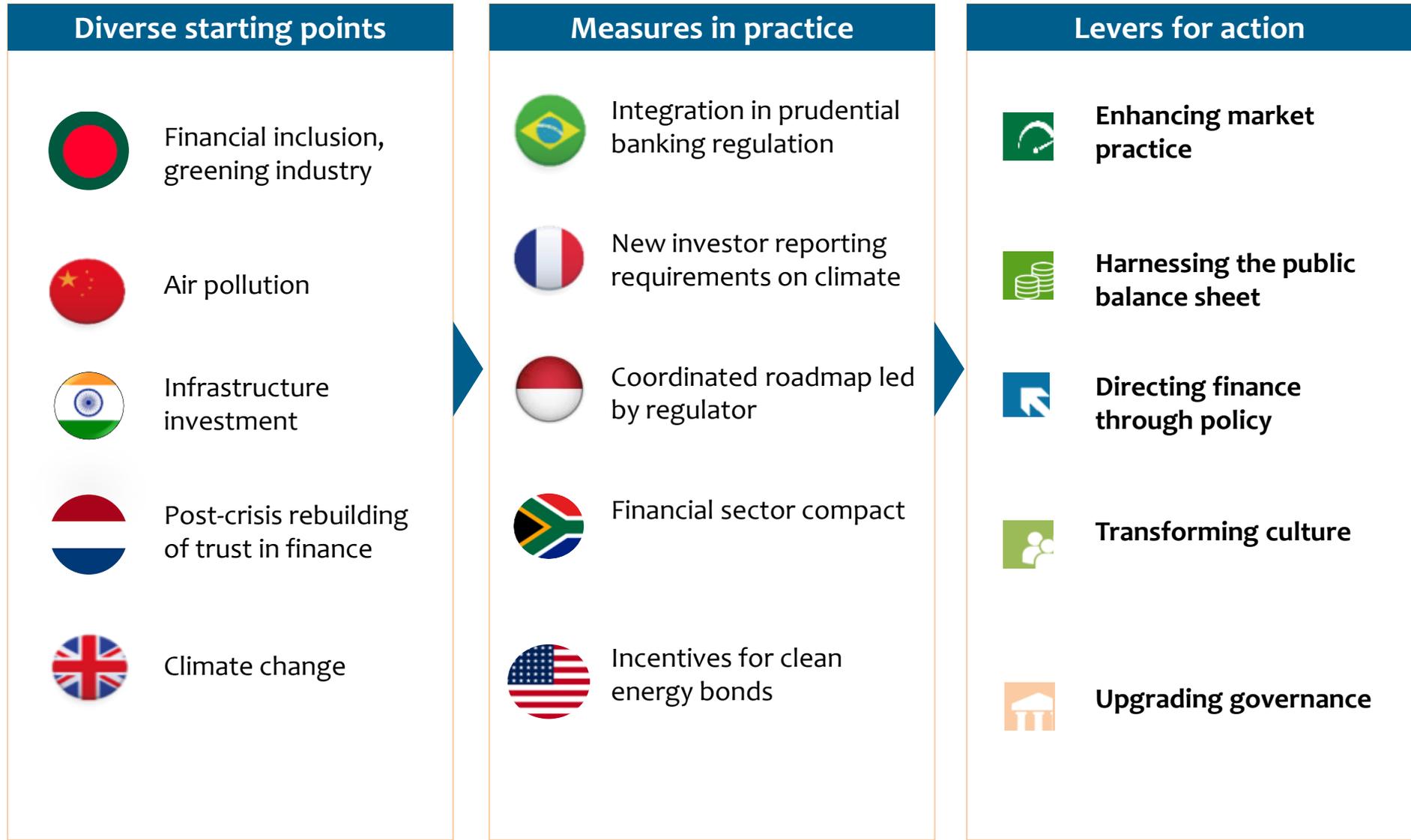
Upgrading the standards and regulations required to catalyze investment, for example, in bond markets

### 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.



[Source Inquiry, 2015]



**Enhancing the market:** BM&F Bovespa stock exchange launch ISR Index in 2005

**Managing risks:** In 2014, BACEN introduced new requirements for banks to manage socio-environmental factors as part of core risk system to improve governance and strengthen soundness.

**Performance measurement:** Brazilian Bankers Association (FEBRABAN) starting to track green lending flows: c9% of corporate lending.

*“Sustainability is a positive asset for financial and monetary stability”*  
**Aloisio Tupinamba, Chief of Staff, Financial Regulation, Central Bank of Brazil**



### Green credit criteria taking shape

Updated: 2012-05-16 17:00

By Zheng Yanpeng ( chinadaily.com.cn)

**CHINADAILY**.com.cn

**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

*“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**



theguardian

'Carbon bubble' poses serious threat to UK economy, MPs warn

**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.

**Green Finance:** The Green Investment Bank instrumental in creating a new class of 'renewable investment trusts'

*“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**



**Enhancing market practice:**  
disclosure, analysis, risk management



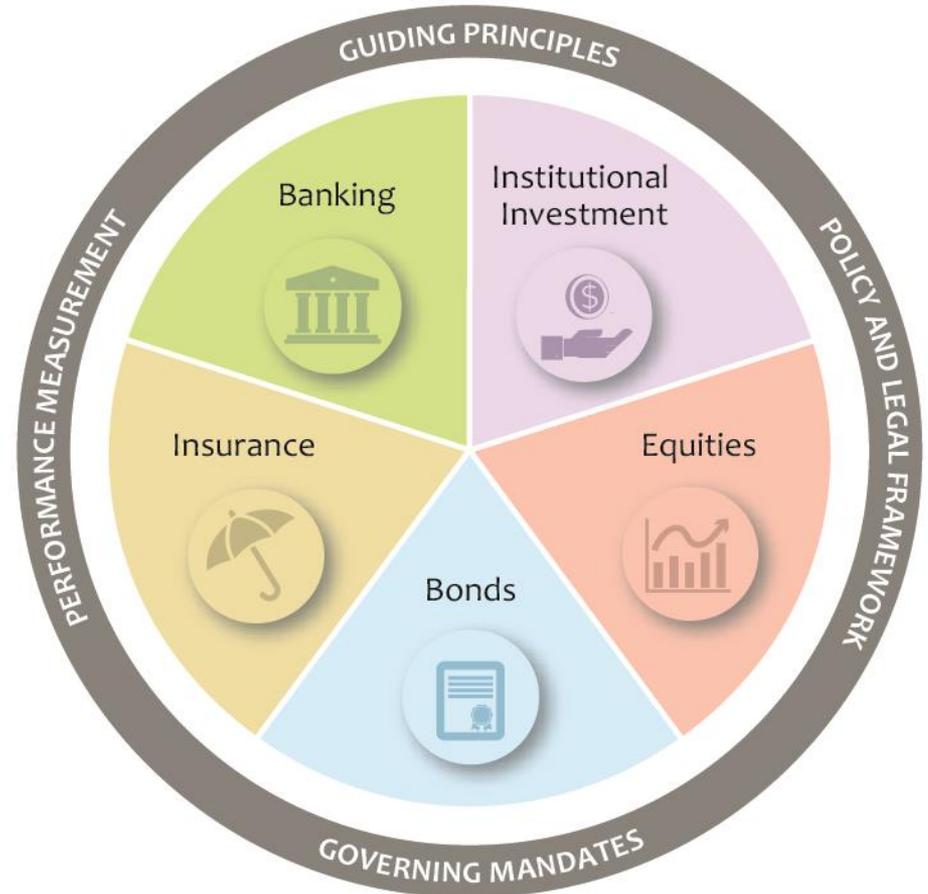
**Harnessing the public balance sheet:**  
fiscal incentives, public financial institutions and central banks



**Directing finance through policy:**  
requirements and prohibitions, enhanced liability



**Cultural transformation:**  
capacity building, behaviour, market structure



*“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**



**Reallocating capital**, for example, through a focus on debt capital market development and green bonds



**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

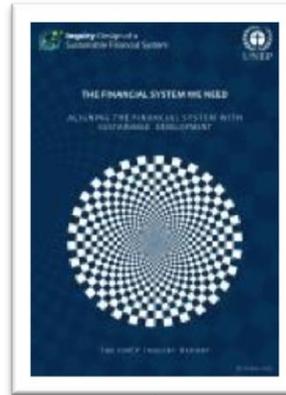


**Tracking performance**, for example, through the development of shared performance metrics

[www.unepinquiry.org](http://www.unepinquiry.org)

**54 publications/research  
pieces published**

**15 more by end of 2015**



**Global Report**  
(English + 6 languages)

Policy Summary

Country research

Other reports

Working papers



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