OPINION

# MOBILIZING FINANCE TO ACHIEVE SUSTAINABLE DEVELOPMENT GOALS

*UNEP FINANCE INITIATIVE'S PERSPECTIVE*

**Eric Usher**

Finance, in any of its forms, may be deployed to support activities that have a positive or negative impact in the social and environmental context. Historically, with limited exceptions, the capital markets and the banking and finance industry have allocated finance without active consideration of these impacts and without pricing in the cost of externalities. As evidence of the detrimental impact of climate change grows, and the challenges from environmental degradation and social issues increase, such "business as usual" is no longer an option. This has major implications for the global financial system.

Since 2015, the role of the financial industry has been front and centre when discussing how to deliver the Sustainable Development Goals. The world's governments approved the 17 goals and agreed that all resources need to be mobilized to achieve the SDGs, including a hefty contribution from the private finance sector.

Investors, banks and insurers are the major channels of private financing for sustainable development. Relying only on the public sector for financing means that solutions to sustainable development will not only be expensive, but ultimately also incomplete. A global transition towards a green economy will require substantial redirection of investment to increase the current level of public and private sector flows to key priority areas, the bulk of which will need to be mobilised through financial markets. In recent years, we are seeing a shift in the behaviour of investors who are increasingly moving from responsible investment ("do no harm") to sustainable investment ("invest in solutions to sustainability challenges").

The roles of lending, investment, insurance and public finance all remain critical in greening different economic sectors and establishing more resource-efficient societies. We live in a time where the financial sector cannot operate in isolation from the rest of society, where issues like climate change or social unrest affect or threaten the development of countries and will eventually have an impact on the financial institution itself. Climate change, for example, presents real risks and opportunities to investors and financial institutions across all asset classes. Decisions made by private sector Investors and by financial institutions will have a major influence on how society responds to climate change.

At UNEP Finance Initiative (UNEP FI), we recognize that financing sustainable development is the collective responsibility of governments, businesses and individuals and together with our members, we are committed to working collectively toward common sustainability goals. For many years, we have focused on equipping our members with the tools and expertise to assess and manage these kinds of environmental, social and governance risks. The Drought Stress Testing Tool, which launched in April 2017, allows banks to assess the vulnerability of their loan portfolios to the impacts of drought. This tool can be modified and used by banks in the Arab region. In April of this year, we launched the first in a two-part series of methodologies that help banks disclose the risks to, and the opportunities for, their business presented by climate change based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. Similar work on climate disclosure is now also underway with our investment and insurance members.

It is becoming increasingly clear that the financial sector as a whole must change its mind-set as it integrates environmental, social and governance considerations. Our response needs to change gears, and look towards forward-looking risk management approaches that can address the transition risks associated with a shift to sustainable, low-carbon and climate-resilient economies. We should also look beyond risks, towards opportunities, and focus on growing the pool of finance available to deliver positive impacts.

With the Sustainable Development Goals agreed, financiers will increasingly need to take a more holistic approach to extra-financial analysis, appraising both positive and negative impacts and doing so across the three pillars of sustainable development: integrating economic development, social inclusion, and environmental sustainability. By doing this, we are preparing for an economy where impacts will become much more central, and developing a common language for all actors to identify truly positive impact, SDG-serving, business and finance. In January 2017, UNEP FI launched the Principles for Positive Impact Finance, which will help

*Eric Usher is Head of United Nations Environment Programme Finance Initiative.*

identify products, services and ways of working that will deliver positive impact. Nineteen of UNEP FI's members, including two from the Arab region, are working with the Positive Impact team and in 2018 will deliver guidance for the delivery of Positive Impact products and programmes.

**Scaling up**

To meet the huge investment needs of the UN 2030 sustainable development agenda, we need to collectively work to unlock financing, provide stronger policy guidance, and build capacity in order to create the investment necessary to achieving the SDGs.

What has been distilled from previous discussions about sustainable development in the Arab region over the years are the following needs:

Policy innovation which will spearhead capacity-building and regulatory reform in capital markets;

Institutional innovations within the finance sector to scale up portfolio investments and mobilize savings towards supporting sustainable growth in the Arab countries. In the region on average, portfolio investment to the SDGs currently accounts for less than 1 percent of GDP and low loan to GDP ratios. The potential for change is huge if we can cross this 1 percent barrier[1].

Finally, the need to come up with a new measurement framework beyond GDP to define and measure performance in areas such as employment, health and sustainability. This new set of metrics should also be used in framing national economic planning and development policy.

For there to be a more comprehensive, systemic take-up of sustainable finance, what is now needed is to create a bridge from the macro level, the global "trillion-dollar funding gap", to the institutions in the finance sector. This should be broken down into country-specific funding plans that are consistent with national climate commitments, the so-called Nationally Determined Contributions (NDCs), and specific green or circular economy plans where they exist. Such a breakdown would clearly identify priority areas for investment (and divestment) and map the associated mix of funding sources needed to meet the commitments.

The available funding mix will clearly differ by country or region – economies with very small or non-existent capital markets will look to leverage Multilateral Development

ABOUT UNEP FINANCE INITIATIVE

The United Nations Environment Programme Finance Initiative[2] is a strategic public-private partnership between UN Environment and the global financial sector, established in the context of the 1992 Earth Summit. It is the United Nations' only dedicated partnership with the financial sector.

Its mission is to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations. It has produced cutting-edge practical tools and training to enable practitioners to undertake the fundamental changes required to transition to a green economy. UNEP FI has further acted as a standard-setter, giving birth to both the Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI).

We work closely with more than 200 financial institutions that are signatories to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, and a range of partner organizations, to develop and promote linkages between sustainability and financial performance.

The Middle East and North Africa coordinator within UNEP FI works to support and expand sustainable finance practices in both the African and the Middle Eastern regions. A top regional priority is to create a critical mass of signatories in the Arab region that are able to exchange ideas and best practices as well as learn about worldwide developments in the field via the UNEP FI-facilitated network.

The UNEP Finance Initiative welcomes members from any country in the world. It particularly welcomes financial institutions from the emerging markets.

Bank (MDB) support, public funding and the banking sector, and others will be able to look to a broader mix of private sector investors via the capital markets with for example green bonds looking to play an ever increasing role. The funding plan would also address incentives, fiscal measures and other policy and regulatory initiatives to support the plan on a jurisdictional or regional level.

Even if country-funding plans have not yet been developed, there are nevertheless actions that the financial sector's actors can take on climate such as:

- In the industry sector (banking, investment, insurance) and at the institutional level, develop practice guidelines that integrate environmental, social and governance factors in core operations and develop the capacity to implement these across the business and at depth, i.e. with integrity.
- Support the call for global action by governments, regulators and policy makers to set sustainability standards and price in the associated externalities.
- Identify existing financial support for carbon-intensive activities and define a transition plan to reduce exposure.
- No longer finance additional capacity in the worst performing carbon-intensive industries.
- Allocate new financing to activities that support the Nationally Determined Contributions (NDCs), i.e. that support energy efficient, low-carbon production and consumption companies and processes.
- Identify new technologies, create centres of excellence that understand how to finance these initiatives and set targets for levels of investment and finance.
- Develop public-private partnerships with MDBs and other public sector funding agencies.

These are by no means comprehensive but they would constitute a very significant first step.

## Conclusion

Since 1972, the United Nations Environment Programme has been engaging with countries around the world in its role as advocate for the global environment. As the world continues to be impacted by the effects of climate change and resource depletion, the need to promote sustainable

development as a response is becoming more acute by the day. The challenge for UN Environment therefore is to engage globally while at the same time providing a tailored response to the specific needs and nuances of each region and country.

There is still a long road ahead until we achieve a sustainable and resilient global economy supported by a sustainable financial system. In the future, progress will be achieved when there is a full-scale institutional realignment with sustainable development. Achieving the two-degree economy will necessitate scaling up the green, but also turning down the grey, and having the leadership, the management, the products and value chains in place to turn the ship. UNEP FI has been supporting its members in navigating this transition to integrating sustainability as a value creation driver and contributing to the UN Sustainable Development Goals. In 2017, we started work on the Sustainability Dashboard, which will enable our members to assess their progress towards these goals and assess where they need to improve. The aggregated results will help UNEP FI determine its own progress in its work, which will be delivered at the Global Roundtable 2018 in Paris, three years after the historic eponymous climate agreement.

We hope to see more Middle East-based financial institutions joining UNEP FI and look forward to supporting them to become regional champions of sustainable finance and green economy financing.

## NOTES

1. ESCWA, Arab Sustainable Development Report, Prototype Edition, Technical Summary, 2015 https://www.preventionweb.net/files/45335_arabsustainabledevelopmentreport.pdf

2. UNEP Finance Initiative website: Changing Finance, Financing Change http://www.unepfi.org/