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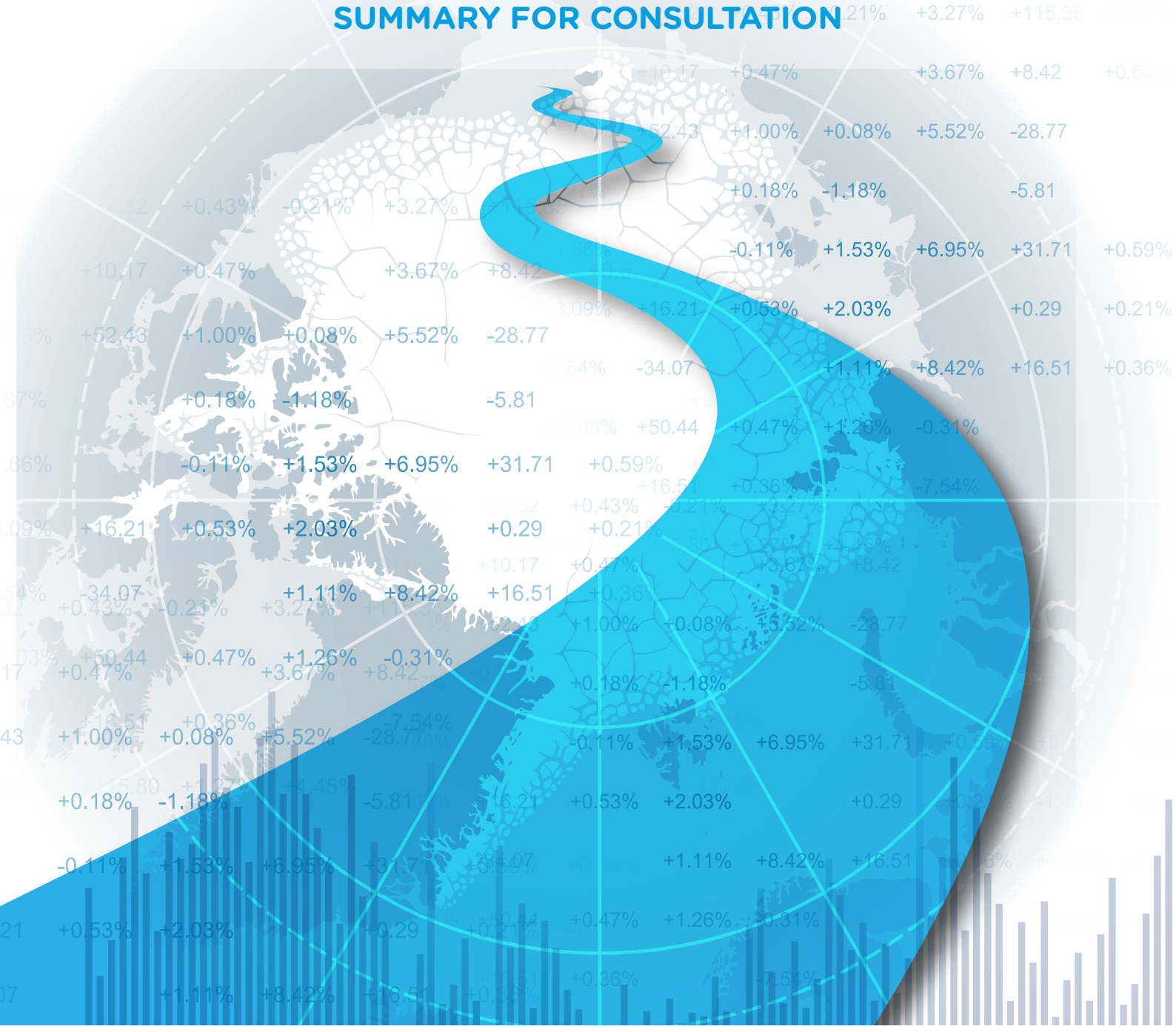
ROADMAP FOR A **SUSTAINABLE FINANCIAL SYSTEM**

SUMMARY FOR CONSULTATION



Inquiry: Design of a Sustainable Financial System

APRIL 2017

The Inquiry

The Inquiry into the Design of a Sustainable Financial System has been initiated by the United Nations Environment Programme to advance policy options to deliver a step change in 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. The Inquiry's mandate currently extends to the end of 2017, with work focused on deepening and taking forward its findings.

More information on the Inquiry is at: *www.unep.org/inquiry* and *www.unepinquiry.org* or from Mahenau Agha, Director of Outreach (*mahenau.agha@unep.org*) and Simon Zadek, Co-director (*simon.zadek@unep.org*)

The World Bank Group

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development. Established in 1944, the World Bank Group is headquartered in Washington, D.C.

More information is available from Samuel Munzele Maimbo, Practice Manager, Finance & Markets Global Practice (*smaimbo@worldbank.org*) and Peer Stein, Adviser & Head of Climate Business, IFC Financial Institutions Group (*pstein@ifc.org*).

Acknowledgements

The authors of this report are Samuel Munzele Maimbo (World Bank), Peer Stein (IFC) and Simon Zadek (UN Environment Inquiry). They are grateful for the support of Shari Friedman, Alfonso Garcia Mora, Dan Goldblum, Iain Henderson, Joachim Levy, Celya Pazabasioglu, Felicity Perry, Nick Robins, John Roome, Laura Tuck, Eric Usher and Jan Walliser, and comments and revisions from Barend Jansen, Gianni Lorenzato, Aditi Maheshwari, Marc Schrijver, Brandon Yeh and Rong Zhang.

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ROADMAP FOR A
SUSTAINABLE FINANCIAL SYSTEM
SUMMARY FOR CONSULTATION

I. VISION FOR A SUSTAINABLE FINANCIAL SYSTEM

UN Environment and the World Bank Group view the over-arching objective of a sound financial system as being to provide finance that meets the long-term needs of an inclusive, environmentally sustainable economy. While there is no single blueprint or unique pathway for creating such a "sustainable financial system", it is possible to describe its many characteristics and progress towards it.

From a **Government and Regulatory** perspective, characteristics of a sustainable financial system include *(i) Policy Alignment*: ensuring international, national, regional and sub-national financial regulators are aligned with long-term policy goals; *(ii) Financial Stability:* ensuring financial system resilience in the face of environmental and climate-related pressures and associated policy measures; and *(iii) Public Finance:* ensuring the effective use of scarce public finance to catalyze green finance.

From a **Private Financial Market** perspective, these also include: *(iv) Principles, Cultures and Beliefs*: ensuring that the financial system is sensitized, responsive to and rewarded for environmental stewardship; *(v) Market Integrity:* ensuring effective transparency and accountability to underpin financial sector behavior; *(vi) Innovation and Dynamism:* ensuring innovative financing instruments and business models are aligned to the financial system's purpose; *(vii) Long-term Financing:* ensuring financing decisions take longer-term risks and opportunities associated with the environment into account; and *(viii) Information and Capabilities:* ensuring the effective flow and use of market-relevant environmental information.

II. PROGRESS IN DEVELOPING A SUSTAINABLE FINANCIAL SYSTEM

The overall agenda for evolving a sustainable financial system is broad, and several constituencies have pursued it in relative independence, including from market-based initiatives, at the international and national levels, and of efforts from various Development Finance Institutions (DFIs).

- **Market-based efforts** include a growing number of financial institutions that are increasing their environmental risk assessment capabilities, allocating funds to specific green lending and asset classes, and making commitments to decarbonize their portfolios. Such developments have been reinforced through collective initiatives such as the Sustainable Banking Network (SBN) and the UN Environment Finance initiative (UNEP FI).
- **National policymakers and regulators** are also increasing their support and promoting efforts in sustainable finance, with many introducing measures to promote capital reallocation, improve risk management, and enhance reporting.
- **International cooperative efforts** carried by the G20, the G7, the UN and the Financial Stability Board have all addressed different aspects of sustainable and green finance, while increasingly involving the private sector.

- Lastly, **DFIs** remain critical in continuing to actively promote sustainable finance, with initiatives ranging from the adoption of sustainable practices in their core financial activities, to the launching of new products aimed at driving capital to green applications.

III. RATIONALE FOR THE ROADMAP FOR A SUSTAINABLE FINANCIAL SYSTEM

Progress is being made in advancing a sustainable financial system. However, despite such positive momentum, we risk slipping backwards if financing for sustainable development remains inadequate, and if much financing continues to flow towards unsustainable production and consumption patterns. This Roadmap is a contribution to international efforts by UN Environment and the World Bank Group to meet the urgent financing imperatives underpinning the SDGs and climate considerations reflected in the Paris Agreement. The Roadmap focuses on how best to scale sustainable and 'green' finance experimentation, through identifying key characteristics and objectives, and exploring possible action plans to achieve these goals.

IV. ACTIONS FOR A SUSTAINABLE FINANCIAL SYSTEM

The UN Environment and the World Bank Group's Roadmap initiative intends to design an action plan that moves towards a sustainable financial system, including its elements, sequencing and principal actors, and a basis for measuring progress. The Roadmap will build on the extensive experience of both partners and many other active in the field. At this stage, aligning the financial system to SDGs and the Paris Agreement requires the Roadmap to include several core pillars:

1. ***Governing policies, principles, mandates and instruments:*** key financial sector government institutions, international and national – need to operationalize policy alignment through the application of relevant principles, the reinterpretation and adjustment of mandates, and the development of existing and new institutions and instruments. Specific actions include:
   - Develop "General Principles for a Sustainable Financial System" for assessing sustainability with relevant performance indicators
   - Aligning national and international environment, social and governance (ESG) standards

2. ***National roadmaps for sustainable finance:*** ambitious national approaches to aligning financial system development with policy goals are the building block to a sustainable financial system, thus enabling experience, encouraging leadership, and supporting international cooperation. Specific actions include:
   - Actively involve and consult with banks, institutional investors and financial regulators at the national level to develop national roadmaps
   - Ensuring alignment of individual national roadmaps with international standards

3. ***Products, business models and technology:*** green financial products and asset classes such as green bonds establish new and aligned market opportunities, and beyond that, innovations in underlying business models – often driven by a new generation of digital technologies including fintech, big data, artificial intelligence and the internet of things. Specific actions include:
   - Greening capital markets through increasing development of green bonds and integrating sustainable indices and credit ratings for financial actors
   - Greening the banking sector through building and disseminating the business case for green banking, and scaling advisory support for green financing for banks
   - Greening institutional investors through leveraging existing platforms for sustainable institutional investors, and working at the national level to raise awareness
   - Integrating innovative technology through expanding the Green Digital Finance Alliance and launching of a Green Finance Innovation Fund

4. ***Information, capabilities and incentives:*** the flow of market-relevant environmental information can lead to the enhanced capabilities of financial institutions in using such information effectively in decision-making, and incentivizes them to do so in practice. Specific actions include:
   - Investing in and developing data infrastructure for the green economy
   - Encouraging greater transparency in financial markets through voluntary disclosure of climate and environment-related material risks

5. ***Public financing and related policy actions for sustainable development:*** effective domestic international flows of public finance, whether from DFIs, through fiscal policies, or by public procurement are integral to supporting a sustainable financial system. Specific actions include:
   - Implementing a range of sustainable fiscal policy options
   - Introducing regulatory changes
   - Intensifying engagement with DFIs and international organizations to leverage DFI instruments

6. ***Measuring progress***: strengthening the ability to track green financial flows, and link flows to market behavior, characteristics and architecture, will thus enable sustainable development considerations to be embedded in assessments of financial system performance. Specific actions include:
   - Taking stock of existing policies and practices
   - Developing a measurement framework for tracking green financial flows

VII. NEXT STEPS

The final *Roadmap for a Sustainable Financial System* will be launched at the World Bank-IMF Annual Meetings in October of 2017. In developing this Roadmap, the partners commit to a wide-ranging consultation process, enabling governments, regulators, financing institutions and other stakeholders to provide inputs and review proposals. Such inputs will be key to ensuring a useful Roadmap, as will its specificity in setting out the roles and responsibilities of key actors, including the partners themselves. The next steps of the Roadmap will be to engage and consult with committed country-level policy officials and regulators in identifying potential partnership countries to carry out the first phase of the Roadmap initiative.

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1818 H Street, NW
Washington, DC 20433
United States
Website: *www.worldbank.org*

Inquiry: Design of a Sustainable Financial System
International Environment House
Chemin des Anémones 11-13
Geneva,
Switzerland
Tel.: +41 (0) 229178995
Email: inquiry@unep.org - Twitter: @FinInquiry
Website: *www.unep.org/inquiry/*
Inquiry Live: *www.unepinquiry.org*