



UNEA-2 FACT SHEET: Sustainable Finance

Why sustainable finance matters

Harnessing the global financial system is essential to realize the Sustainable Development Goals. Additional investments of US\$5-7 trillion every year will be needed from both public and private finance. Sustainable development factors will need to be fully incorporated into the rules that govern the financial system to mainstream the management of environmental and social factors into decision-making and mobilise private capital for sustainable development priorities. The prize is a financial system that is more aligned to the needs of the real economy as it makes the transition to sustainable development, more efficient at allocating capital, more inclusive, more resilient to increasing shocks and more long-term in its outlook..

We are now seeing policy innovations from developed and developing countries that demonstrate that the financial system is already being aligned with sustainable development. UNEA will provide another opportunity and forum to enhance international cooperation on this topic.

The state of play

- Realizing the Sustainable Development Goals will cost between **US\$5-7 trillion every year**.
- Financing sustainable development will require capital flows to be redirected towards critical priorities and away from assets that deplete natural capital.
- Natural capital is declining in at least **116 countries** and at current rates, these trends are expected to further erode global natural wealth **by over 10% by 2030**, causing considerable human harm, threatening development models, and damaging irreversibly, in some instances, vital life support systems.
- Developing countries face an annual sustainable development investment gap of **US\$2.5 trillion**
- Major economies face a long-term investment deficit of **US\$10 trillion annually by 2020**.
- Public finance will be critical to closing the financing gap, but will also be pivotal in catalyzing contributions private finance that will constitute the majority of financing. Banking alone manages financial assets of almost **US\$140 trillion** and institutional investors, notably pension funds, manage over **US\$100 trillion**. Capital markets, including bond and equities, manage more than **US\$100 trillion** and **US\$73 trillion** respectively.
- Billions of people and millions of small businesses lack access to financial services. Short-termism and excessive leverage remain significant drivers of instability and reasons why longer-term sustainability-related risks are being sidelined in financial decision-making
- A business-as-usual scenario will see negative environmental outcomes increase rapidly as financial systems develop.

The benefits of action

- Integrating sustainable development into the evolution of financial systems provides both short and long-term potential benefits.
- In the short to medium term:

- Developing countries have the opportunity to increase financial access, reduce environmental pollution with associated improvements in public health, and improve financial flows to clean energy and other new sources of economic development.
- Developed countries have opportunities for improving market integrity, aligning the financial sector more closely to the of the real economy, enhancing financial and monetary resilience, and addressing policy goals such as financing the energy transition.
- The longer-term opportunity for both developed and developing economies is to evolve efficient financial systems that are more effective in serving the needs of inclusive, sustainable economies and societies.
- Measures identified by the Inquiry, taken one by one, are unlikely to protect society from other financial system weaknesses that enable mispricing, rent-taking and instability. http://unepinquiry.org/wp-content/uploads/2015/11/The_Financial_System_We_Need_EN.pdf
- The cumulative impacts of such measures can be more than the sum of their parts. Implemented with ambition and engagement, they can trigger broader, system-level shifts.
- At stake is the potential to shape a financial system fit for the 21st century purpose of serving the needs of sustainable development
- UNEP serves as the Secretariat to the G20 Green Finance Study Group under the Chinese G20 Presidency

Change across the globe

- There is an historic window of opportunity to develop a sustainable financial system. Across the world, the value of capital committed to more responsible financial practices is growing.
- A “quiet revolution” is underway, seeking to increase the internalization of sustainable development factors into financial decision-making
- The Bangladesh Bank has established requirements that banks direct a minimum proportion of their loans to green projects such as renewable energy and energy efficiency.
- The Banco Central do Brasil (BACEN) has initiated seven specific measures to strengthen the management of socio-environmental risks. In 2011, it was the world’s first banking regulator to request that banks monitor environmental risks
- The China Banking Regulatory Commission has established “Green Credit Guidelines”, requiring banks to report on environmentally-related credit risk in their main portfolio, as well as specific green loans.
- In 2009, the US Securities and Exchange Commission issued guidance for companies to disclose climate change issues to their investors: the focus was on material risks to shareholder value.
- The UK requires pension funds to disclose their social and environmental
- France recently approved measures to increase the disclosure of sustainability factors (particularly on climate change).
- The Swiss financial community has initiated a national-level examination of sustainable finance as a new source of international competitive advantage.
- **38 stock exchanges** around the world have committed to enhanced disclosure through their membership of the Sustainable Stock Exchange Initiative, co-convened by UNEP, UNCTAD and the UN Global Compact.
- Institutional investors in the Portfolio Decarbonization Coalition have pledged to decarbonize **over US\$600 billion in assets**
- The South African Pensions Act has clarified that prudent investors must consider environment factors that may materially affect long-term performance.
- In late 2014, Indonesia’s OJK launched its Roadmap for Sustainable Finance, the country’s first attempt to map out the developments needed to advance sustainable finance through 2019.