

SUSTAINABLE FINANCE ROADMAPS

ALIGNING FINANCE
WITH A RESILIENT AND
SUSTAINABLE ECONOMY

A briefing paper for the 2018 United Nations Environment Programme Finance Initiative (UNEP FI) Conference in Sydney on financing a resilient and sustainable economy.

This briefing paper has been authored by the Responsible Investment Association Australasia as a background paper for the delegates of the UNEP Finance Initiative Conference on Financing a Resilient and Sustainable Economy, 23 & 24 July 2018.



Responsible Investment
Association Australasia

Globally, momentum is building to better align finance with the sustainable development needs of the 21st century.

Many countries are working to establish themselves as the new financial centres with a uniquely 21st century flavour, whereby capital is directed at scale to align with global goals to achieve sustainable development and create resilient economies.

The growth engine for the 21st economy is evermore evidently aligned with a sustainable economy —one that prioritises human well-being, social equity, and environmental protection.

Globally, momentum in sustainable banking, insurance and investment (collectively “sustainable finance”) is building in order to meet the need for the trillions of dollars of financing required to deliver on the UN Sustainable Development Goals, along with an estimated US\$1.5 trillion a year required to deliver the Paris Agreement on Climate Change.

The finance sector is directing ever-greater amounts of capital – through lending, insuring and investing – to help tackle our most urgent social and environmental challenges.

Last year alone, US\$200 billion was issued globally in green bonds¹, over US\$255 billion was invested in renewable energy², and US\$35 billion was invested into impact investments³. Over US\$21 trillion of capital was also committed to investing with a responsible and sustainable investment approach, with consideration of sustainability issues embedded in investment and lending decision-making.⁴

But to truly achieve sustainable development, trillions more will be needed to protect and transform our economies and societies, to strengthen social capital and conserve and preserve natural capital.

Leading countries have noted this opportunity and are setting out Sustainable Finance Roadmaps that provide pathways and policy signals and set frameworks to enable the finance sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with these global goals.

Progress underway – a global move to Sustainable Finance:

A growing number of countries around the world are working to establish themselves as leaders in green and sustainable finance:

- **UK**

The UK’s Green Finance Taskforce provided a final report to the UK Government on Accelerating Green Finance in March 2018 and separately in June the UK Government produced recommendations that clarify and strengthen the duties of pension fund trustees in considering sustainability, consumer preferences and social impact.

- **European Union**

The European Commission published its Action Plan for Financing Sustainable Growth following on from the final report of the EU’s High-Level Expert Group on Sustainable Finance. The Action Plan aims to: drive more capital to sustainable investment for sustainable and inclusive growth; manage financial risks of climate change, environmental degradation and social issues; and foster better transparency and long termism.

- **Canada**

Canada has established an Expert Panel on Sustainable Finance, announced in early April by the Minister for Finance and Minister of Environment and Climate Change, aimed at tapping the economic opportunity from “clean growth and climate action”.

1 <https://www.climatebonds.net/files/reports/cbi-green-bonds-highlights-2017.pdf>

2 <http://fs-uneep-centre.org/publications/global-trends-renewable-energy-investment-report-2018>

3 https://thejin.org/assets/2018_GIIN_AnnualSurvey_ExecutiveSummary_webfile.pdf

4 <http://www.gsi-alliance.org/members-resources/trends-report-2016/>

- **China**

China has been surging ahead as well, with the People's Bank of China along with six government agencies releasing guidelines for establishing a green finance system in late 2016 aimed at incentivising more private capital to be directed towards green sectors, away from polluting sectors and "to facilitate a green transformation of the Chinese economy".

- **Norway**

Norway has also recently established a roadmap for green competitiveness in the Norwegian financial sector through a coalition of industry groups to support a low carbon, sustainable economy.

- **Indonesia**

Indonesia is now well progressed into their own Roadmap for Sustainable Finance, having commenced in 2015 aimed at boosting sustainable economic growth, support sustainable development and lift more Indonesians out of poverty.

- **Other**

An International Network of Financial Centres for Sustainability was recently launched connecting major financial centres of the world to accelerate the expansion of green and sustainable finance ensuring the world's major financial centres are sharing experience and taking common action to support this objective.

These examples stand among many other national, regional and global initiatives - such as the Sustainable Stock Exchanges Initiative and the IFC's Sustainable Banking Network, among many others - that are aiming to develop a financial system that supports economic, social and environmental sustainability in order to contribute to shaping a better, more prosperous world for all citizens.

In short, many regions of the world have identified the great opportunity of aligning banking, insurance and investments in a way that ensures capital markets are directed to the types of assets and infrastructure needed to ride out global challenges such as food and water security, lessening inequality, building climate change resilience and planning for the impacts of structural shifts in global employment among many other of the great 21st century challenges.

Drivers for a Sustainable Finance Roadmap:

Global challenges

- Paris Agreement on Climate Change
- UN Sustainable Development Goals
- Sendai Framework for Disaster Risk Reduction
- Convention on Biological Diversity
- UN Guiding Principles on Business and Human Rights

Market stability

- Climate risk is undermining financial market stability, as has been articulated by global regulators and central banks

Financial returns

- ESG management underpinning stronger risk management and investment outcomes
- Sustainability underpinning stronger long term outcomes for businesses

Consumer standards

- Increasing consumer expectations that their savings, premiums and investments are being invested responsibly in a way that supports a better world into which they will retire

Legitimacy of industry in question

- Royal Commission has highlighted systemic woes with the finance industry so shifting focus back on how finance contributes to society and the real economy

What is in a Sustainable Finance Roadmap?

Sustainable Finance Roadmaps provide pathways and policy signals and set frameworks to enable the finance sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with global national and regional goals.

In short, such a roadmap is a set of recommendations across policy, regulation and finance sector practices that in combination form a coherent plan to direct finance to support a more sustainable and resilient economy.

The recommendations require action at multiple levels, from Federal legislative changes, to regulatory guidance updates, to commitments by industry to change practices. Importantly, it is the sum of all the recommendations as opposed to an uncoordinated disparate set of policy changes – that is the strength of such a roadmap. That is, it is the full implementation of the recommendations, and joint commitments from government, regulators and the finance sector, that ensures the success of these roadmaps to deliver their objectives.

Although the roadmaps to date have been varied in their focus, there have been many consistent components. These common roadmap components have included some or all of the following:

- **Clarifying investor & director duties:** Clarifying that investors' fiduciary duties as well as directors' duties as being consistent with contributing to sustainability goals, with a positive duty to consider sustainability, ESG and climate risks.
- **Improved disclosures on sustainability and climate risks:** Improving disclosures by companies and investment organisations on key sustainability issues, including requiring reporting on their approach to ESG, climate related reporting (such as the Task Force on Climate-related Financial Disclosures), and other improved disclosures that can facilitate more sustainable finance (such as portfolio holdings, shareholder voting reports, how companies and investors have considered ESG risks).
- **A sustainable finance taxonomy:** Clarifying what constitutes sustainable or green assets to assist in setting greater clarity around what would constitute sustainable financing and sustainable financial products. By establishing this taxonomy, this can better mobilise capital at scale and support the credibility and uptake of sustainable investments.
- **Enabling consumers to align their finances with sustainability:** Requiring investors and financial advisers to take into account the sustainability preferences of their clients, as well as catalysing more retail sustainable finance offerings that allow for greater consumer primacy in finance.
- **Government's role in building the sustainable infrastructure pipeline:** Incorporating sustainability considerations across other parts of government programs such as infrastructure priorities to build the pipeline of sustainable, inclusive and resilient infrastructure investment opportunities.
- **Aligning finance with the long term:** shifting incentives to align finance towards time horizons more appropriate to beneficiaries and the long term societal goals, including establishing stewardship principles for investors to report against
- **Setting standards for sustainable investments:** Enhancing standards in responsible and sustainable investment using industry leading standards to build minimum requirements and consistency
- **Supporting social impact investment:** Improved support for social impact investment as a means of building capital in explicit support of social and environmental outcomes, such as through clarifying investor duties as consistent with social impact investment, or by direct government support for co-investment in impact.
- **Building sustainability into the role of the regulators:** clarifying how sustainability considerations should be better integrated into the oversight of financial regulators.
- **Appropriate skills in leadership in finance:** ensuring governance and leadership in finance are appropriately skilled and competent to be fit and proper to manage sustainability risks and opportunities.

Where is Australasia?

Both Australia and New Zealand have made progress on some elements of these components listed above. However in both countries, there is a no coherent plan connecting all the required pieces into a clear roadmap.

Bringing together the components that are already underway, under a clear and coherent sustainable finance roadmap, this would provide the greatest opportunity for finance to play a role in delivering a resilient and sustainable economy. This would also support the delivery of government commitments, and deliver a finance sector more aligned to civil society and connected to growing the real economy.

Australia:

In Australia, the key elements that are already taking place include:

- **Regulators APRA and ASIC** both have climate change risks on their radar, having made public statements in 2017 and 2018 acknowledging these risks to financial stability and the role of directors
- **The need to clarify investor duties**, particularly those of superannuation fund trustees, is on the agenda, with APRA having noted a review of relevant Prudential Practice Guide (SPG530) as part of a review of APRA's superannuation prudential framework in 2018
- **The ASX Corporate Governance Council's** draft 4th edition of Corporate Governance Principles and Recommendations continues to propose further strengthening of corporate reporting of ESG disclosures
- Australia has in place the world's longest **running responsible investment standards and certification program** through RIAA's Certification Program, setting minimum requirements for consistency across various sustainable investment products and defining many elements of the taxonomy
- **Infrastructure Australia** has in place a strong infrastructure project prioritisation process that looks at environmental and social benefits and costs in its cost benefit framework that could be enhanced to build the sustainable infrastructure investment pipeline

- **The Clean Energy Finance Corporation** plays a role of facilitating co-investments with private sector capital in sustainable assets
- **Stewardship codes** are emerging in Australia, with an asset manager code in place by the Financial Services Council, and a newly launched Asset Owner Stewardship Code by the Australian Council of Superannuation Investors
- the Federal Government has acknowledged **the emerging role of impact investment** in delivering private capital to social outcomes with funding commitments, and a proposal for a co-investment wholesaler has been prepared under the name of Impact Capital Australia
- **Responsible and sustainable investment** continues to become a significant part of the finance sector, reaching 1 in every 2 dollars invested, and consumer demand for these investments also continues to climb strongly

New Zealand:

In New Zealand there are also elements that are already emerging that cover some of the key components of the sustainable finance roadmaps, including for example:

- **The Productivity Commission's** recent low emissions economy draft report noted that to effectively align capital to deliver on the low carbon commitments of NZ, a low emissions investment strategy is required, that effectively contains a number of elements of the Sustainable Finance Roadmap such as:
 - The strategic alignment of government investment to support the low carbon transition
 - Government policy to improve climate-related disclosures
 - Enhancing financial sector regulation to support the transition
 - Identifying a clear taxonomy of low emissions investment
- **Treasury is working to establish a Living Standards Framework** that will measure progress on wellbeing of government policies. This could be configured in such a way that it ensures the alignment of finance to better meet the needs of NZ

- **NZX Corporate Governance Code** has required reporting of material ESG issues by listed companies, with the NZX having published an ESG reporting guidance note
- **A Green Investment Fund** is being developed in a similar manner as Australia's Clean Energy Finance Corporation that will assist in building the investment pipeline and co-investing in low carbon assets
- **A recently established National Advisory Board on impact investing** that is committed to working with government to align capital with social and environmental outcomes
- **Surging consumer interest in sustainable investment**, as shown by the move from the KiwiSaver industry to exclude harmful industries from portfolios

How do we do it?

This UNEP Finance Initiative Conference is the start of a process for developing sustainable finance roadmaps for Australia and New Zealand.

Following the model of many other countries, the process needs to begin in earnest and could include the following steps:

- Seek a high level commitment from industry representative bodies and finance sector institutions to support of a sustainable finance roadmaps, such as a joint statement in support;
- Establish a high level expert working party to develop up the components of roadmaps in Australia and New Zealand, including industry experts, regulators and the UN;
- Seek Federal government support for the process of forming a high level expert working party; and
- Release an expert report on the recommendations for Australian and New Zealand Sustainable Finance Roadmaps, with recommendations of that report implemented through commitments from industry, regulators and legislators.

We look forward to working with you on the establishment of Sustainable Finance Roadmaps in Australia and New Zealand.

This paper is prepared as a background paper for the UNEP FI conference in Sydney on 23rd and 24th July 2018. This paper is intended to provide a summary of developments in sustainable finance globally. The recommendations on policy, regulation and finance sector practices that have been included in this report are a summary of the various sustainable finance roadmaps around the globe and do not constitute recommendations for policy, regulatory or finance sector practice changes in Australia or New Zealand by the authors nor the conference organisers or supporting organisations.

This report was prepared by the Responsible Investment Association Australasia. RIAA is the peak industry body representing responsible, ethical and impact investors across New Zealand and Australia. RIAA has over 220 members who manage well in excess of \$9 trillion assets under management globally. RIAA works to see more capital being invested more responsibly, working to shift capital into sustainable assets and enterprises, and shape responsible financial markets, to underpin strong investment returns and a healthier economy, society and environment.



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