

THE FINANCIAL SECTOR AND THE SDGS – INTERCONNECTIONS AND FUTURE DIRECTIONS

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Unsustainable finance?	1 Poverty	2 Hunger	3 Poor health and stress	4 Poor education	5 Gender inequality
6 Water pollution, bad sanitation	7 Expensive and dirty energy	8 Precarious work and economic recession	9 Declining real economy, innovation and infrastructure	10 Increasing inequalities	11 Unsustainable cities and communities
12 Irresponsible consumption and production	13 Climate chaos and extreme weather	14 Dead oceans, lakes and rivers	15 Declined life on land	16 Conflict, injustice and weak institutions	17 Disagreement on the goals



INSIDE DEVELOPMENT | SUSTAINABLE DEVELOPMENT GOALS

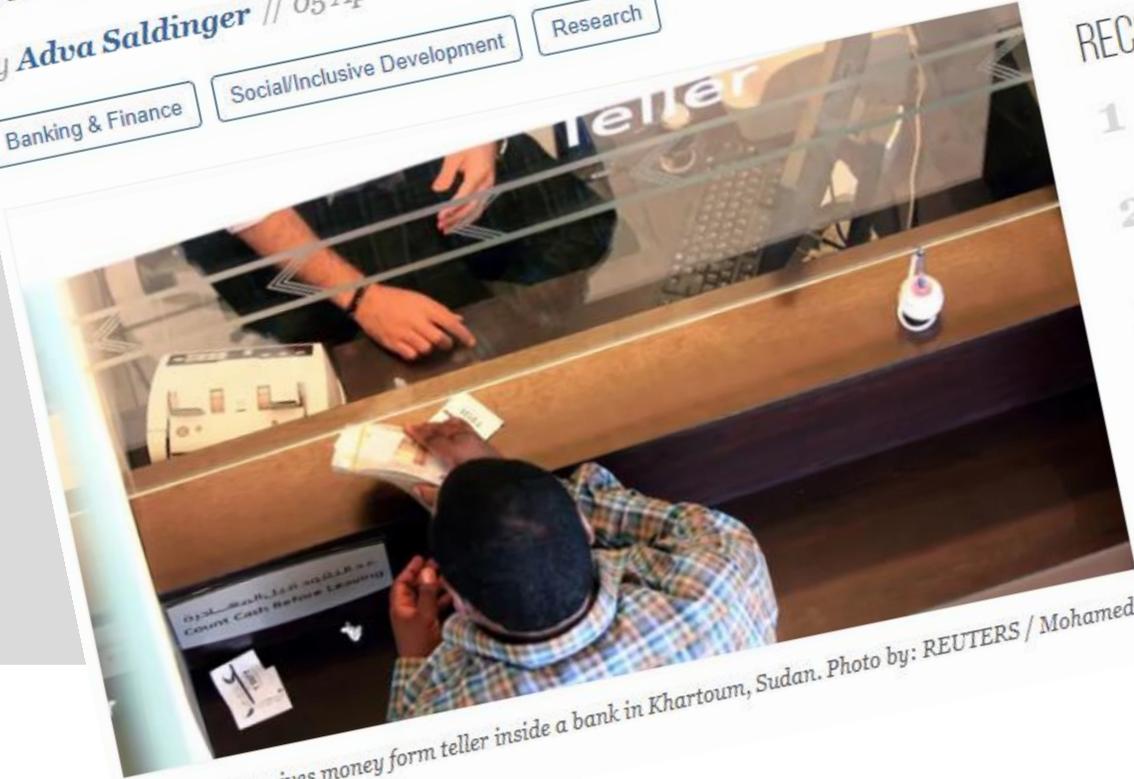
UN report: Financial systems must change or SDGs will fail

By **Adva Saldinger** // 05 April 2019

Banking & Finance

Social/Inclusive Development

Research



A customer receives money from teller inside a bank in Khartoum, Sudan. Photo by: REUTERS / Mohamed Nureldin Abdallah

RECOMMENDED FOR YOU

- 1 Gates Foundation discusses gender investment at Seeds of Change
- 2 Q&A: World Bank human capital index gathers momentum
- 3 Reducing the barriers to financial access: Plans for PNG
- 4 New framework to get the localization balance right
- 5 What happens when a DFI project goes wrong?



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FROM THE REPORT

1. Multilateral institutions need to adapt and reform, and strengthen collective action in support of sustainable development
2. Remaking of global financial architecture: sovereign debt, international tax norms, international trade system
3. Creating national financing frameworks to support national development plans
4. Shifting to a more long-term way of thinking by all, including the private sector
5. Regulatory frameworks to address risks from and opportunities of technology
6. Not to invest will impact everyone, including the financial industry



United Nations. (2019). *Financing for sustainable development report*. New York: United Nations.



FINANCING GAP

- \$2.5 trillion for developing countries (UNCTAD, 2015)
- \$5 to \$7 trillion needed annually until 2030
- Governments to provide 50 to 80 % (Niculescu, 2017)
- Value of global financial assets: \$290 trillion (du Toit, Aniket Shah & Wilson, 2017)
- ODA 2016: \$142.6 billion
- Private sector FDI: \$523 billion
- Funds to least-developed countries are in decline: \$18 billion for 31 countries in 2016 (Niculescu, 2017)
- Countries have to develop bankable projects and good governance



WHICH SDGS ARE FAVOURED BY INDUSTRY (PWC, 2018)?

- Prioritized goals by all industries



- Prioritized goals by financial industry



- Citizen priorities



REGULATIONS AND VOLUNTARY CODES OF CONDUCTS ADDRESSING SUSTAINABILITY

- Regulations
 - » China
 - » EU
 - » Bangladesh
 - » Brazil
 - » Nigeria
- Codes of Conduct
 - » UNEPFI
 - » Equator Principles
 - » UN Principles for Responsible Investment
 - » Global Alliance for Banking on Values
 - » Impact Investing and Reporting Standards



CHINA: GREEN CREDIT POLICY (2012)

- Goal
 - » Increase of green credit portfolio and decrease of polluting portfolio
- Governance
 - » Key performance indicators as part of the annual reporting to the regulator
- Outcome
 - » Lower non-performing loan ratio for green credit (Cui, Geobey, Weber, & Lin, 2018)



BANGLADESH: ENVIRONMENTAL RISK MANAGEMENT GUIDELINES

- Goal
 - » Protection of banks from financial risks and reduction of environmental impacts
- Governance
 - » Bangladesh bank offers tools and reduced interest rates
- Outcome
 - » Improvement of credit risk assessment validity through adding environmental and social criteria (Weber, Hoque, & Islam, 2015)



EU: HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

- Goal
 - » “steer the flow of capital towards sustainable investments
 - » identify steps that financial institutions and supervisors should take to protect the financial system from sustainability risks”
 - » establishing an EU sustainability taxonomy, starting with climate mitigation, to define areas where investments are needed most
- Governance
 - » European Commission
- Outcome
 - » No results yet

EU High Level Expert Group in Sustainable Finance. (2018). *Financing a sustainable European economy*. Brussels, Belgium: European Commission.



OTHER CENTRAL BANK AND MULTILATERAL REGULATOR ACTIVITIES

- Bank of England
 - » Ongoing work to assess and respond to climate-related financial risks
- Bank of Canada
 - » Investigate how climate change will affect the country's economy
- Dutch Central Bank
 - » Water risks in the Dutch financial industry
- FSB
 - » Task force for Climate-related Financial Disclosure



VOLUNTARY CODES OF CONDUCT

Name	N	Industries	Main focus
United Nations Environment Program Finance Initiative (UNEPFI)	213	Banks, insurance companies, investors	Promoting sustainable finance, understand environmental challenges for the financial sector, promoting financial sector integration into sustainability policies and discussions
Equator Principles (EP)	88	Public and private project financiers	Determining, assessing, and managing environmental and social risk in projects and providing a minimum standard for due diligence to support responsible risk decision making
United Nations Principles for Responsible Investment (UNPRI)	1500	Assets managers, investment managers, service providers	Understanding the investment implications of environmental, social and governance (ESG) factors and supporting its investor signatories in incorporating these factors into their investment and ownership decisions
Global Alliance for Banking on Values (GABV)	38	Social banks, credit unions, microfinance, community banks	Using finance to deliver sustainable economic, social, and environmental development
Impact Reporting and Investment Standards	246	Asset owners, asset managers, service providers	Providing a catalog of generally accepted performance metrics to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry

➤ Weber, O. (2018). Financial Sector Sustainability Regulations and Voluntary Codes of Conduct: Do They Help to Create a More Sustainable Financial System? In T. Walker, S. D. Kibsey, & R. Crichton (Eds.), *Designing a Sustainable Financial System: Development Goals and Socio-Ecological Responsibility* (pp. 383-404). Cham: Springer International Publishing.

SUSTAINABLE ACCOUNTING STANDARDS BOARD (SASB)

- US based
- Identify, manage and report on the sustainability topics that matter most to their investors (www.sasb.org)
- Set of sustainability key performance indicators
- Materiality for investors
- Transparency and standardization of risks and opportunities



CONCLUSIONS: TWO WAYS TO SUPPORT THE SDGS

- Reduce financing for what prevents to achieve the goals
 - » SDG 3: Unhealthy food
 - » SDG 8: Precarious jobs
 - » SDG 13: Fossil fuels
- Increase financing for what helps to achieve the goals
 - » SDG 4: Schools and teachers
 - » SDG 9: Sustainable innovation and infrastructure
 - » SDG 12: Circular economy



CONCLUSIONS: REGULATORS

- Regulators
 - » Integrate sustainability indicators into financial regulation to address sustainable development and financial stability
 - » Analyze the connection between (non-)sustainable finance and financial risk
 - » Implement guidelines how to address the SDGs, do not only focus on risks
 - » Collaborations between financial regulators and other governing bodies that address environmental and social issues



CONCLUSIONS: VOLUNTARY CODES OF CONDUCT

- Add positive impact approaches to risk mitigating approaches
- Introduce benchmarking including sanctions
- Develop guidelines and policies about Dos and Don't's with regard to the SDGs



FINAL CONCLUSIONS

- Addressing the SDG is not a 'nice to do', it is necessary to avoid future negative consequences for society and the financial industry
- Today we have many opportunities, if we do not take them, the future will bring mainly risks
- From the business case of sustainability to the sustainability case of business



THANK YOU!
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Sustainable Banking



**Managing the Social and Environmental
Impact of Financial Institutions**

OLAF WEBER and BLAIR FELTMATE



THE SDG VS THE MILLENNIUM DEVELOPMENT GOALS (MD)

- MD: Development Issues
 - » Poverty, hunger, education, gender equality, child mortality, maternal health, global diseases
- Problem
 - » Development and the environment are connected
 - » Development might have a negative impact on environmental sustainability and vice versa
- SDG: Combining major social and environmental goals
 - » Protecting the life-support systems necessary for sustainable development

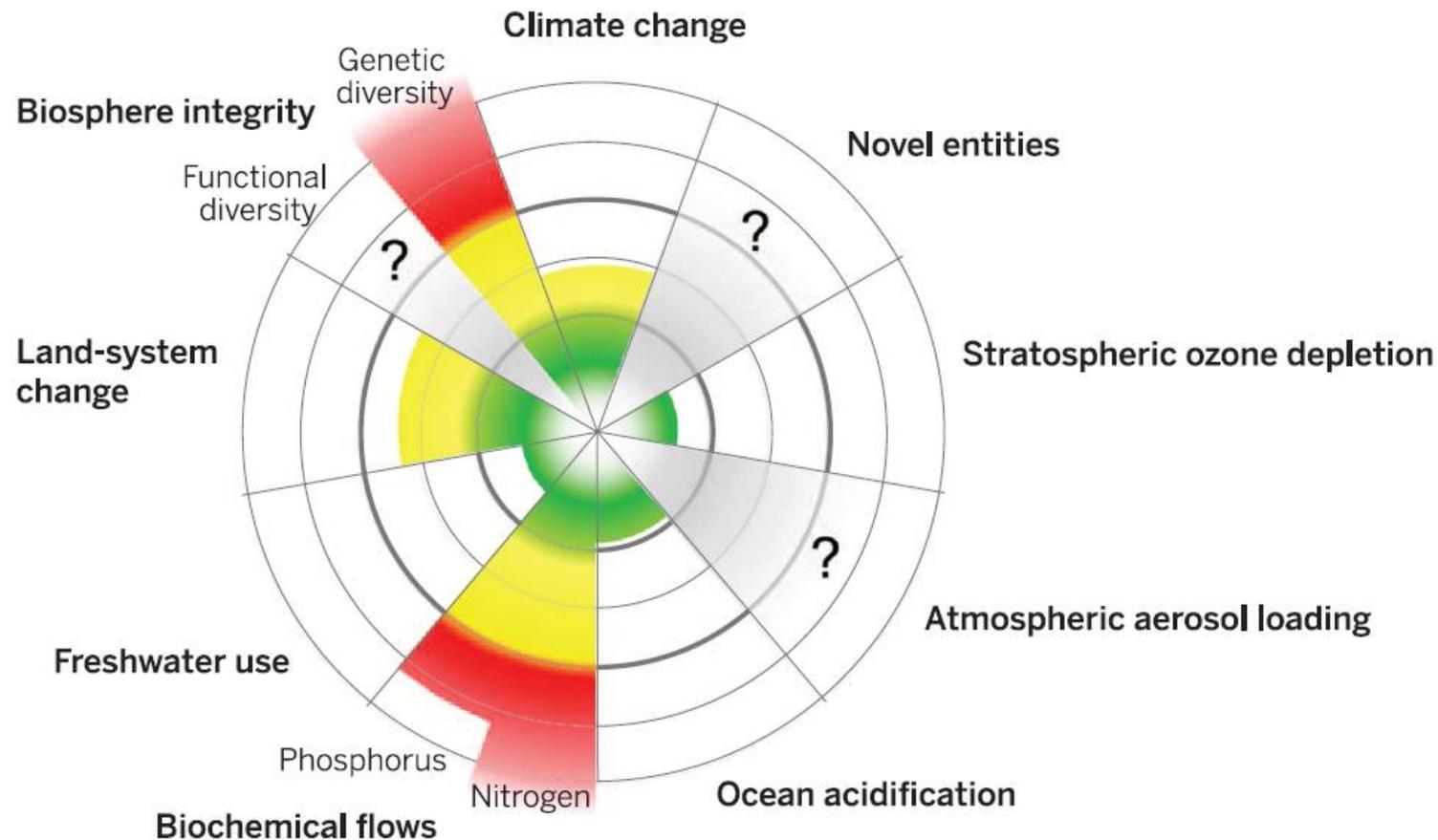


NEW DEFINITION OF SUSTAINABLE DEVELOPMENT

- Development that meets the need of the present, while safeguarding Earth's life-support systems on which the welfare of current and future generations depend.



WHY DEVELOPMENT AND THE ENVIRONMENT: PLANETARY BOUNDARIES



Steffen, W., Richardson, K., Rockström, J., Cornell, S. E., Fetzer, I., Bennett, E. M., . . . Sörlin, S. (2015). Planetary boundaries: Guiding human development on a changing planet. *Science*, 347(6223).



- | | |
|--|---|
|  Beyond zone of uncertainty (high risk) |  Below boundary (safe) |
|  In zone of uncertainty (increasing risk) |  Boundary not yet quantified |