

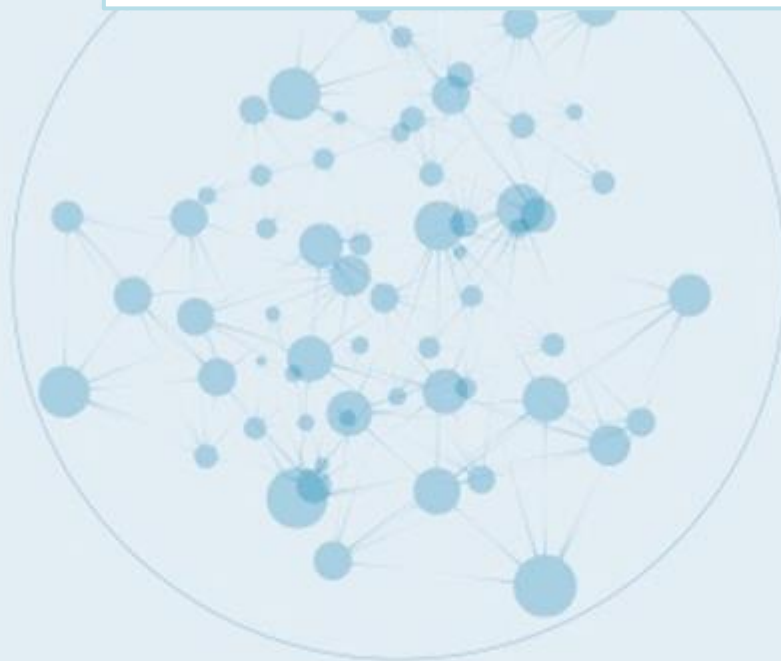


# UN Environment Inquiry

## **Making Waves:**

Aligning the Financial System  
with Sustainable Development

## **Executive Summary**



Financing the Sustainable Development Goals (SDGs) and the Paris Agreement commitments on climate requires trillions of dollars per year. Much of the finance needed will have to come from private sources, yet inadequate private capital is being deployed in ways that are aligned to these goals and commitments.

The Inquiry into the Design of a Sustainable Financial System was initiated by the United Nations Environment Programme (UN Environment) to advance options to align the financial system with sustainable development. Established in January 2014, the Inquiry's work was extended for another two years in late 2015 to help focusing and deepening the findings of its first phase. The Inquiry completed its mandate in March 2018, but many of its workstreams will continue in other forms.

It has published three editions of its global, landmark report: the first in October 2015, the second in October 2016, and third in October 2017. *'Making Waves: Aligning the Financial System with Sustainable Development'* is its final, global report.

This report reviews the Inquiry's core analysis, summarizes progress made in aligning the financial system with sustainable development between 2014 and 2017, reflects on the lessons that can be learned from the Inquiry's approach, and highlights what still needs to be done and what success could look like. It finds real signs that a shift to a sustainable financial system is well under way.

## Driving System Change

The Inquiry focused on the 'rules of the game' governing financial and capital markets. It worked in more than 20 countries, from Argentina to the United Kingdom, both to evaluate progress towards a sustainable financial system and work with key partners to deliver national roadmaps.

It looked at a wide range of issues impacting the ability of the financial system to serve sustainable development, including delivering the first assessment on green tagging in Europe's banking sector, publishing the first analysis of how digital finance could support sustainable development, and identifying the key steps that need to be taken to align insurance with the SDGs.

The Inquiry also worked to encourage international cooperation across issues and platforms, including the G7, G20 and V20, establishing the Sustainable Digital Finance Alliance with China's Ant Financial Services and building a network of 20 financial centres sharing experience to promote green and sustainable finance.

## Evidence of Change

Sustainability is becoming part of the routine practice within financial institutions and regulatory bodies. A growing number of commitments to action are being made, matched by the beginnings of the urgently needed reallocation of capital.

In market practice, there has been a fourteen-fold increase in labelled green bond issuance from US\$11 billion in 2013 to US\$155 billion in 2017. Key to this growth has been the market-creating role of public authorities, including key development banks. Yet such progress needs to be set against the scale of the global bond market of around US\$100 trillion.

Divestments in carbon-intensive assets reached an estimated US\$5 trillion in 2016, set against investments in coal, oil and gas over the same period of around US\$710 billion. The increased membership of the Principles for Responsible Investment to over 1,900 signatories, with combined assets under management of US\$70 trillion, is also a welcome development.

National action is critical, and there are a growing number of ambitious roadmaps (such as Indonesia, Mongolia, Morocco and Switzerland). Each is important, but some catalyse broader international action. For example, China's Guidelines for Establishing a Green Financial System are the world's most comprehensive set of national commitments, covering priorities across banking, capital markets and insurance.

The global number and range of policy measures to advance aspects of sustainable finance has increased. At the end of 2013, 139 subnational, national-level and international policy and regulatory measures were in place across 44 jurisdictions. Four years on, the number of measures has risen to 300 in 54 jurisdictions, with a substantial rise in system-level initiatives.

There has been a striking growth in international initiatives to share experience, stimulate action and promote cooperation on key rules and standards. Other structurally significant initiatives include the G20 Green Finance Study Group (GFSG), co-chaired by China and the UK, with UN Environment serving as its Secretariat. The GFSG continued under the German G20 Presidency in 2017 and is operating as the Sustainable Finance Study Group under the Argentinian G20 Presidency in 2018.

## Lessons from the Inquiry

The most salient aspects of the Inquiry's approach were to shape a narrative that demonstrated the need for system change in finance in pursuit of sustainable development, a focus on being the 'messenger' of existing practice, 'crowding in' independently championed innovations, and convincing new financial actors that sustainable development was also their business.

The Inquiry benefited from the positioning, leadership and patient capital of UN Environment, which created the possibility of risk-taking innovations not always common to international organizations, building on previous breakthrough initiatives such as UN Environment's Green Economy programme.

With the completion of the Inquiry's mandate, considerable effort has been deployed to ensure its work is picked up. Key aspects of its work will continue through Sustainable Finance at the G20, coalitions for actions such as the Network of Financial Centres for Sustainability, the Sustainable Digital Finance Alliance and the Sustainable Insurance Forum.

Similarly, country-specific work will increasingly involve other parts of the United Nations system, partly catalysed by the support provided by the Inquiry to the UN Secretary-General's leadership in championing sustainable finance.

## Getting the Financial System We Need

Clearly, some capital is flowing to the new economy. But far more is continuing to support the old economy, through an inability or unwillingness on the part of owners and intermediaries to redeploy it.

The next phase in sustainable finance will be about making the shift from acknowledgement to alignment. It will be multidimensional and non-linear. It will involve mainstreaming as well as the replacement of the mainstream by new, better ways of doing finance. It will encompass a sense of purpose for the financial system matched by a decentralized model of delivery. All this will mean new performance metrics for the financial system, ones that measure the extent to which sustainability is really part of the process of finance as well as its outcomes.

The engagement of increasingly influential players, the growth of ambitious, powerful coalitions of actors that can support collaborative action, and the shifting focus towards pivotal areas such as the potential of digital finance, the roles of rating agencies, China's Belt and Road Initiative and engagement of key policy platforms such as the G20 all point to further action.

The Inquiry's work with the World Bank Group in producing the *'Roadmap for a Sustainable Financial System'* enabled us to identify some of the developments needed to accelerate the flow of sustainable finance. Some actions can be taken by market actors, such as disclosure, but even these may need policy or regulatory interventions to advance at scale and speed. Other measures require policy interventions in the broadest sense, which would include a combination of policy, regulatory, standard-setting, judicial and fiscal actions, often working in concert with, and supportive of, market innovations and broader developments.

The Inquiry has been part of a wave of change that has started to link the financial system with sustainable development. The evidence indicates the potential for a strong next wave of action.

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