

SUSTAINABLE FINANCE:

RECOMMENDATIONS FROM EUROPE

SWITCH Asia SCP Facility

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DEVELOPMENTS FOR SUSTAINABLE FINANCE

- ▶ The signature of the Paris agreement on 12 December 2015 marked a milestone for the world and the global economy;
 - ▶ The EU and other countries have pledged to reduce CO2 mission to varying degrees and necessary policy changes are being made;
 - ▶ The scale of the investment challenge is well beyond the capacity of the public sector alone;
 - ▶ To decisively address the funding shortfall, requires regulatory changes to mobilise significant funding capacity of private capital;
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DEVELOPMENTS FOR SUSTAINABLE FINANCE

- ▶ Sustainability is the theme of our time – and the financial system has a key role to play in delivering that set of ambitions;
 - ▶ Given the complexity of the financial system and its policy and regulatory framework, there is no single lever to achieve these ambitions and ‘switch’ the financial system to sustainability.
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THE ISSUE

- ▶ The first is to improve the contribution of finance to sustainable and inclusive growth as well as the mitigation of climate change;
- ▶ The second is to strengthen financial stability by incorporating environmental, social and governance (ESG) factors into investment decision-making;
- ▶ Both imperatives are pressing, given the rising climate-related risks and degradation in the environment and other sustainability areas;
- ▶ At the same time, there is a great need to improve current production processes towards more efficient use of resources, which will result in saving that will prepare the ground for investment and management of green finance.

WHAT IS NEEDED

- ▶ Define areas where investments are needed most, including resource efficiency decoupling of on-going industrial processes, not just new investments;
- ▶ Clarify investor duties to extend the time horizons of investment and bring greater focus on environmental, social and governance (ESG) factors into investment decisions;
- ▶ Upgrade disclosures to make sustainability opportunities and risks transparent;
- ▶ Enable retail investors to invest in sustainable finance opportunities; and integrating sustainability firmly in the governance of financial institutions as well as in financial supervision;

WHAT IS NEEDED

- ▶ Confront short-termism in financial markets so as to reduce its negative impact on long-term corporate investment and development;
 - ▶ To consider ways to empower citizens to engage with sustainable finance;
 - ▶ To improve financial market benchmark transparency and guidance;
 - ▶ To tackle the many social and environmental challenges:
 - support the growth of social enterprises and the financing of social-related projects
 - revalue natural and environmental capital in economic and financial decisions
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WHAT IS NEEDED

- ▶ 'A deep re-engineering of the financial system is necessary for investments to become more sustainable' and committed work on disclosure, credit ratings, accounting standards, supervisory processes and investment mandates;
 - ▶ Work in partnership with the SMEs, not just for investing money, but by understanding better the needs and the production process, and accompany the business partners in revising, adapting and improving their activities.
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ULTIMATE AIM.....

- ▶ Not increase the overall regulatory burden and complexity, given that the ultimate purpose is to facilitate more investment;
 - ▶ Ensuring that the investors understand better the business and their challenges, to enable them to better and more adequately use invested resources, for a win-win benefit, both the investor/bank and the business partner/recipient.
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CONCLUSION

- ▶ Sustainable finance offers a powerful tool to a country for achieving its goals of economic prosperity, social inclusion and environmental regeneration but what is required is a long-term policy framework for sustainable finance.
- ▶ Sustainable finance should not be seen as just additional resources on existing systems; they should first improve the efficiency of the system in which the funds will be invested;
- ▶ In this context, a sustainable finance process that also invests in improving and enabling the system with which it will partner will be compatible with the principles of the long lasting transformative change as well as the promotion of sustainable consumption and production

Reference
Document:



Final Report 2018
by the High-Level Expert Group on Sustainable Finance
Secretariat provided by the European Commission