Financing sustainable development – report of the retreat organized by the UN PGA
(Pocantico, 8-10 March 2016)

Highlights

Participants agreed on the need to make the Sustainable Development Goals (SDGs) work productively both for governments and the private sector. Implementing the Paris Climate Agreement should be structured to support the implementation of the SDGs. In many cases, this will require businesses and investors to mainstream the consideration of the SDGs into their core business-decision making. This will require prioritization of investments that catalyse the SDGs and redirection of financial flows away from investments that may accelerate climate change. Achieving the SDGs will not only require expansion of climate-smart investments, but also less investments in harmful activities.

Discussion on integrating sustainability[1] risks into investment decisions

As carbon emissions generate costs for countries, companies and people, they inevitably create market failures. These costs need to be identified and quantified. Strengthening institutional capacities for assessing these risks is crucial. While everybody agreed on the importance of focusing on climate risks, many recommended that risk management policies, tools and approaches should factor the SDGs into the equation. The Addis Ababa Action Agenda, in this particular, was innovative in adopting strong language on sustainable financing.
Responsible banking was cited as one approach to factoring SDGs into financial decision making. Stress-testing tools currently used for ESG risk assessment could also be used for other aspects of the development agenda, such as women discrimination. Tools and data collection can always be improved and scaled up, especially in developing countries, but there seemed to be a consensus that enough information is already out there to more fully understand the risks involved in policy and business decision making. A problem with risk analysis is that this data is not sufficiently well analysed or benchmarked and certain climate-related risks are therefore not being taken fully into consideration by companies or not being taken into consideration at all.

Discussion on Project Pipelines

Consideration of the SDGs should be incorporated in the development of project and investment pipelines. Policy coherence is crucial and needs to be guaranteed at the highest political level in government. Domestic resources and local financial institutions as well as a domestic financial market are crucial for SDG implementation and the creation of project pipelines. Standardization and aggregation of projects (e.g., credit facilities or bonds) and organizations (e.g. accreditation) makes it easier for investors to invest in SDG related projects. Many of the projects referenced in the NDCs are important to achieving the SDGs (in the water and forests sectors, etc.) In addition, a strong enabling environment that includes consistent application – globally - of policy and regulatory guidelines is essential to attract investors. A conversation on how to build such an environment is vital and should include all relevant stakeholders, covering both the sustainable national policy and international finance point of view.

Discussion on Systemic Issues

The financial system is a complex network of stakeholders, including regulators, brokers, and stock exchanges. All of the institutions in the network need to be engaged in the transformation of the financial services sector. Individual businesses and investors can signal their policy needs, but other actors, such as Central Banks and other financial regulators should be engaged as well. Requiring mandatory disclosure of ESG risks would help make the business case for the SDGs. The Global Compact could play a role in bringing forward sustainability standards in financing. Moving toward mandatory reporting by the private sector is important.

Conclusions

- Commitments on sustainable finance make a difference when taken up at the level of Heads of State and complemented with a strong coalition-building focus. The HLTD on 21 April should deliver a powerful message on the need for policy coherence in implementing the Climate Agreement and the SDGs and the messages should feed into other international fora and meetings.

[1] = Environmental, Social, and Governance (ESG) criteria

- Though the UN remains a key leader in this process, the G-20 together, with the world's leading economies, can lend crucial support in mainstreaming the SDGs into macroeconomic public policies, especially in regard to growth, energy, infrastructure and governance.
- The UN is critical as it exhibits strong convening power to exhort and engage national leaders and actors across the board to follow up on global commitments, and should continue its efforts in this direction.
- The PGA should suggest developing a strategy how to further integrate the SDGs into finance, including through engagement with the private sector.
- Existing processes and fora within the UN, especially the Financing for Development Forum and the High Level Political Forum, should be encouraged to provide a coalition/platform dedicated to engaging private finance sector (via associations and at CEO level and key trusted players).
- UNCTAD could be explored as a complementary liaison venue for investors in developing countries, given its extensive knowledge and experience on regulatory aspects and frameworks.
- A resolution on sustainable finance by the UNGA – as proposed by some participants – could be one option of bringing political attention and current strands that exist under one consistent framework to the topic of sustainable finance, keeping in mind that resolutions entail a long negotiation process by member states.
- The Global Compact could play a role in bringing the SDGs to the attention of the business community.

In whatever format these follow-up and liaison mechanisms take shape, it is crucial to bring externalities into market transactions, including through:

1. transitioning from principles to minimum standards on responsible investments
2. transitioning from voluntary to mandatory ESG reporting in stock exchanges (environmental, social and governance criteria)
3. incorporating sustainability risks in rating agencies
4. de-risking investment and transferring risks
5. differentiating various policy-related risks
6. translating systemic risks for capital markets
7. mainstreaming the SDGs in the design of project pipelines
8. providing more "ready made products" for investors, like green and blue bonds
9. updating central banks' mandates with sustainability goals

- Action is urgent!

Background

The finance retreat convened by the 70th President of the UN General Assembly, H.E. Mogens Lykketoft, and his Office (OPGA), was made possible thanks to the kind and professional organization of The Pocantico Center of the Rockefeller Brothers Fund. The retreat invited a select group of thought leaders from the finance sector (commercial banks, insurance companies, development banks, investor groups, rating agencies), NGOs, Academic Institutions, and representatives of Member States. The participants at the retreat discussed opportunities for accelerating and redirecting capital flows into low-carbon and climate-resilient infrastructure as well as investments that advance the UN's 2030 Agenda and the Addis Ababa Action Agenda.

This report was written by members of the OPGA staff based on materials prepared for this meeting and the discussions that took place there. It reflects the views of the authors and not necessarily those of other conference participants or of the Rockefeller Brothers Fund, its trustees, or its staff.