BLOOMBERG PHILANTHROPIES – EBF – IIF – PAULSON INSTITUTE – SIFMA – UN ENVIRONMENT

GREENING THE FINANCIAL SYSTEM: EXPLORING THE WAYS FORWARD

A Briefing

KEY MESSAGES

- Strong governance is critical in driving progress in green finance. Demonstrated leadership in developing domestic green policy guidelines and markets have resulted in the increase in demand and issuance of green finance products and can further support green finance growth and harmonization.
- The definition of green finance is evolving. From the financing of investments that provide environmental benefits in climate change mitigation and adaptation, "green finance" is evolving to include sustainable natural resource management, inclusive finance, education and other sustainable development criteria identified by the Sustainable Development Goals (SDGs) in the 2030 Agenda.
- Financial technology can reshape business opportunities and provide green innovators new ways to access capital, to alter consumer behaviour and to scale green digital finance. The development of more cooperative platforms, such as the Green Digital Finance Alliance (GDFA), will further facilitate the scaling of green digital finance.
- China recognizes the strategic imperative of green finance and has emerged as a prominent leader in promoting and implementing it. The Belt and Road Initiative is an opportunity for China to further incorporate green finance and climate risk policies, while sharing successful experiences, and encourage adoption of green finance by emerging economies.

On 12 October 2017, on the margins of the World Bank/IMF Annual meetings, Bloomberg Philanthropies, the European Banking Federation (EBF), the Institute of International Finance (IIF), the Paulson Institute, the Securities Industry and Financial Markets Association (SIFMA) and UN Environment convened a roundtable discussion entitled "Greening the Financial System: Exploring the Ways Forward". The goal of this convening, the fourth in the series, was to examine lessons from developing and implementing green finance initiatives over the last few years and to highlight successful examples and opportunities, particularly from China and of green digital finance.

GREENING THE FINANCIAL SYSTEM – PROGRESS TO DATE

> "The world's transition to low carbon economy won't be easy or cheap, but we have the capital and we have the ideas. We have seen this through China's example in addressing its most pressing environmental challenges while promoting economic growth. Through their green finance agenda, they have proven that this transition is feasible."

Henry M. Paulson, Jr., Chairman, Paulson Institute

As highlighted in previous *Greening the Financial System* events, green finance offers vast opportunities to meet the ambitious objectives outlined in the Paris Climate agreement and in the SDGs, which need private capital for long-term, profitable global infrastructure investments in both developed and developing countries. To accelerate the greening of the financial system, technological innovation, harnessing of digital finance for green, and underlying policies that support green development are essential.

The Task Force on Climate-related Financial Disclosures (TCFD) released its recommendations in June 2017, and extended its mandate to September 2018, further supporting capacity-building and implementation. As the financial sector moves toward implementation, common frameworks and guidance is essential to help align industry practices. Recommendations by participants in the convening include:

- *Developing effective governance and strong policy guidance.* Working together to progress green finance, governments and regulators should commit to prioritize green finance-related policies.
- *Harmonizing across sectors, financial actors and regions.* Focusing on building platforms that facilitate sharing and capacity-building among industry participants, particularly in areas such as scenario analysis and stress testing.
- *Evolving the definition of green finance.* Broadening the purview of green finance to include the objectives underpinned in the SDGs such as climate change adaptation, natural resource management, universal access to health and education, and financial inclusion.

GREEN DIGITAL FINANCE

> "Ant Financial Services was born out of necessity 20 years ago. It was created after Alipay when we realized that we needed to produce a trustworthy platform in order for SMEs and internet service platforms to partner with us. Green digital finance is now the next necessity."

Eric Jing, CEO, Ant Financial Services

The global financial system is undergoing immense changes through business innovation underpinned by digital finance. These changes are increasingly becoming intertwined within a broader technological ecosystem, including big data, artificial intelligence and the internet of things. Digital finance offers the prospect of a more efficient, accessible and less vulnerable financial system, while also presenting opportunities to further green the system. Mainstreaming green digital finance will require a balanced mix of effective market and policy action.

Market-based actions could include:

- *Create innovative products that capture and interact with consumer behaviour.* Digital products and business models should promote inclusive sustainable development, similar to the approach of Ant Financial Services' Ant Forest programme, and achieved through the reinforcement of carbon reduction behaviours.

- *Support businesses and services that direct green finance flows based on scaling up smaller transactions.* The aggregation of smaller investments into larger ones will be critical to scale progress and outcome, and can be achieved by developing products and services tailored for small and medium-sized enterprises (SMEs), decentralized markets, products and actors.
- *Develop technology and products for the larger green finance ecosystem – including verification and evaluation.* Fintech and blockchain technology could enable the tracking of green investments, and to verify the immutability of the "green" claims of products and flows, contributing to tagging and scoring of green products and activities and verify corporate delivery on green sustainability claims.
- *Establish cooperative platforms that harness digital technologies.* Platforms such as the existing Green Digital Finance Alliance provide frameworks for parallel industries to work together to unlock the next wave of fintech innovation. Uptake in participation and proliferation of new global and regional platforms can further this process.

Governments actions could include:

- *Establish the role of policymakers and financial regulators in the financial technology space.* On the one hand, regulation will be necessary to minimize distortive market behaviours and protect individual consumer privacy rights, while also remaining flexible so it does not restrict innovation and the continued evolution of the digital finance space.
- *Understand and plan for potential unintended consequences of transformative technologies.* From common cybersecurity risks and regulatory gaps of understanding fintech development, to the potential of automation and displacement of labour, the downside implications of fintech and digital finance development need to be better understood and managed by governments.
- *Support coordination and capacity-building efforts, and create education centres that integrate green finance, policy and technology.* Governments and international bodies should develop green finance human capital by promoting knowledge-sharing, a support asset owners and managers with harmonized tools, sector-specific scenario data, and learning platforms and training.

GREEN FINANCE IN CHINA

> "Three years ago, if you asked a banker in China whether they knew anything about green finance, they would likely say they've never heard of it. But today, there is a better chance to get a positive answer and to engage in discussion on product."
>
> Governor Zhou Xiaochuan, People's Bank of China

As documented in the forthcoming "China Green Finance Progress Report", China's leadership over the past few years in the G20 and in its domestic policy priority on green finance has accelerated the development of green finance. In 2014, the People's Bank of China established a domestic Green Finance Task Force that produced 14 recommendations across four broad themes: information flows, legal frameworks, fiscal incentives, and institutional design. Following these key initiatives, China has seized the opportunity to turn its environmental liability into an economic asset, reaching its 13th Five-Year Plan annual investments target of at least 2 trillion yuan (US$320 billion) in green investments.

Moving forward, the Belt and Road Initiative presents a huge opportunity for China to export its successes in green finance and to enable the development and transformation of the developing world's green financial systems. With pledged investment of over US$50 billion and investment potential in at least 64 countries in four continents, this initiative has the potential to significantly boost development and reduce poverty worldwide, while also contributing to the green transition of the financial system. China also plans to support the development of carbon markets in these countries and allow them to trade on China's national carbon market, due to launch soon. Through China's experience, the following lessons can be shared:

* *Establish high-level policy commitment and strategy coherence*. China established in its national strategic priorities during its 13th Five-Year Plan, policies that addressed the enormous environmental challenges and established ecological civilization, including, the 2017 State Council approved "Guidelines for Establishing the Green Financial System" – issued jointly by seven ministerial agencies including the People's Bank of China.
* *Enact regulatory guidance for banking sector.* The China Banking Regulatory Commission (CBRC) introduced the Green Credit Statistics System in 2014, which was the first emerging market example of regulatory guidance to define green loans, helping banks and industry actors determine the categories of green credit loans. It also introduced tools that helped calculate environmental benefits from green credit lending.
* *Standardize definitions on green instruments and assets.* In the same 2014 CBRC guidance, the definition for green banking assets was standardized within China, making it easier for banks to issue green bonds or pilot other green banking products, such as asset-backed securitization.
* *Support local and provincial development of green finance policies*. To implement and scale the country's transition towards green finance, China set up in June 2017 pilot zones in the five provinces of Guangdong, Guizhou, Jiangxi, Zhejiang, and Xinjiang, where financial institutions are given a wider variety of incentives to provide credit and special funds for environmentally friendly industries.

CONTACTS

Bloomberg Philanthropies – Ailun Yang, Environment Program: ailun@bloomberg.org; www.bloomberg.org

EBF – Sébastien de Brouwer, Executive Director: s.debrouwer@ebf.eu; www.ebf-fbe.eu

IIF – Sonja Gibbs, Senior Director, Global Capital Markets: sgibbs@iif.com; www.iif.com

Paulson Institute – Deborah M. Lehr, Vice Chairman: dlehr@paulsoninstitute.org; www.paulsoninstitute.org

SIFMA – Peter Matheson, Managing Director: pmatheson@sifma.org; www.sifma.org

UN Environment – Simon Zadek, Co-Director, Inquiry into the Design of a Sustainable Financial System: simon.zadek@unep.org; www.unepinquiry.org and www.unep.org/inquiry

The views and opinions expressed in these materials do not necessarily reflect the official policy or position of the sponsors. This Briefing was prepared by the UN Environment Inquiry, with particular thanks to Brandon Kai Yeh, Sébastien de Brouwer, Lisa Fues, Sonja Gibbs, Deborah M. Lehr, Ailun Yang and Simon Zadek. Other publications, including the other briefings in this series, can be downloaded at: http://unepinquiry.org/?s=&post_type=publication.