Sustainable Finance and Green Transitions

Daniel Bouzas Luis,
Regional Coordinator for Europe UNEP FI

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The climate crisis can only be managed and averted through a systemic-scale rechannelling of trillions USD per annum of largely private-sector investment and finance, appropriately enabled and incentivised by public finance, across all sectors of the economy.

Paris Agreement Article 2.1.c. - commits Governments to ensure that all financing - public and private - becomes consistent with the Agreement’s objectives.

EC calculates that Europe will need an estimated EUR 350 billion in additional investment per year over this decade to meet its 2030 emissions-reduction target in energy systems alone, alongside the EUR 130 billion it will need for other environmental goals.
The role of finance in Green Transitions

- Sustainable Development
  - Environmental
    - Climate change mitigation
    - Climate change adaptation
    - Other environmental
      - "Low-carbon"
        - Climate
          - Green
            - Socioenvironmental
              - "Sustainable"

Source: UNEP Inquiry
Part I

UNEP FI Alignment Approach

Voluntary pledges and climate action

Daniel Bouzas Luis, Regional Coordinator for Europe UNEP FI
Introduction

**UNEP FI:**
A partnership between the United Nations & the Global Finance Sector

We work in partnership with 450 banks, insurers and investors to help create a financial sector that serves people and planet.

We develop the world's guiding norms to mainstream sustainable finance (e.g., PRI, PSI and PRB).

We co-create practical research, tools and peer-exchange forums to help financial institutions deliver on their sustainable journey for stakeholders.
UNEP FI Strategy 2022-25
<table>
<thead>
<tr>
<th></th>
<th>Banking</th>
<th>Insurance</th>
<th>Investment</th>
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<tbody>
<tr>
<td><strong>Climate Change</strong></td>
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<td><strong>Ecosystems</strong></td>
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<td><strong>Positive Impact</strong></td>
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<td><strong>Social Issues</strong></td>
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</table>
MEMBERSHIP BY SECTOR

- 70% Banks
- 27% Insurers
- 3% Investors

468 UNEP FI members globally

MEMBERSHIP BY REGION

- 245 Europe
- 82 Asia Pacific
- 72 LatAm & Carib.
- 40 Africa & ME.
- 29 N. America

Data as of 15/08/2022

Principles for Responsible Investment (2006)
Principles for Sustainable Insurance (2012)
Principles for Responsible Banking (2019)
1. Regulatory engagement (mainly EU as priority)

2. Expand membership in Central and Eastern Europe, the Baltics, Balkans, Caucasus and Central Asia

3. Leverage supporting institutions, endorsers and other stakeholders to reach out to institutions more effectively (including UN offices)
Membership in Europe

468 UNEP FI members globally
245 UNEP FI members in Europe >50% of membership in the region
UN Sustainable Finance Frameworks

New industry norms

Coalitions of the Willing

PRI Principles for Responsible Investment

UN Environment Programme Finance Initiative

UN Environment Programme Finance Initiative

TNFD Taskforce on Nature-related Financial Disclosures
The Principles for Responsible Banking are a unique framework for ensuring that signatory banks’ strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

- **280+** Signatory Banks
- **>45%** of the global banking sector
- **$70trn** USD Total Assets
- **65+** countries

Source: UNEP FI
## PRB Market Penetration

Top 10 Banks by Total Assets

<table>
<thead>
<tr>
<th>Region</th>
<th>Bank Name</th>
<th>Rank</th>
<th>Market Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>ICBC</td>
<td>1</td>
<td>70% are PRB</td>
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<td></td>
<td>China Construction Bank</td>
<td>2</td>
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<td>Agricultural Bank of China</td>
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<td>Bank of Communications</td>
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<td>North America</td>
<td>JP Morgan Chase</td>
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<td>Royal Bank of Canada</td>
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<td>Toronto Dominion Bank*</td>
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<td>Goldman Sachs</td>
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<td>Morgan Stanley</td>
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<td>Bank of Nova Scotia*</td>
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<td>Bank of Montreal</td>
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<td>Europe</td>
<td>HSBC*</td>
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<td>BNP Paribas</td>
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<td>Crédit Agricole</td>
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<td>Santander</td>
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<td>Société Générale</td>
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<td>Barclays</td>
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<td>Kuwait Finance House</td>
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<td>Abu Dhabi Commercial Bank</td>
<td>10</td>
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<td>Middle East &amp; Africa</td>
<td>Qatar National Bank</td>
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<td>First Abu Dhabi</td>
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<td>Emirates NBD Bank</td>
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Green shading indicates PRB Signatory Bank

*UNEP FI member

Ranking based on Total Assets | Source: 2020 S&P Global rankings
<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1: Alignment</strong></td>
<td>We will align our business strategy to be consistent with and contribute to individuals’ needs and society’s goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</td>
</tr>
<tr>
<td><strong>2: Impact &amp; Target Setting</strong></td>
<td>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</td>
</tr>
<tr>
<td><strong>3: Clients &amp; Customers</strong></td>
<td>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</td>
</tr>
<tr>
<td><strong>4: Stakeholders</strong></td>
<td>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals.</td>
</tr>
<tr>
<td><strong>5: Governance &amp; Culture</strong></td>
<td>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</td>
</tr>
<tr>
<td><strong>6: Transparency &amp; Accountability</strong></td>
<td>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals.</td>
</tr>
</tbody>
</table>
Implementing the Principles

A 4-year Journey*

Analyzing your bank’s Impact on Planet & People

Setting & Implementing Targets

Accountability & Measuring Progress

*For more detailed information, view the technical documents:
Key Steps to be Implemented by Signatories and Reporting & Self-Assessment Template
Becoming a Signatory

A three-step Process

1. **Sign the Principles for Responsible Banking**
   - Your bank’s CEO signs the official [Principles for Responsible Banking commitment for Signatories](#).

2. **Become a UNEP Finance Initiative Member**
   - Apply for [UNEP Finance Initiative membership](#) to join a global network of hundreds of financial institutions, and gain access to a wide range of knowledge, tools, resources and expertise.

3. **Promote your bank’s commitment**
   - Publicly promote your bank’s positive action with a news announcement and quote from your CEO.
The triple role of the insurance industry

As risk managers, risk carriers and investors, the insurance industry has a vital interest and plays an important role in fostering sustainable economic and social development.

Better management of ESG issues will strengthen the insurance industry’s contribution to building a resilient, inclusive and sustainable society.
Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

The vision of the PSI Initiative is of a risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.

The purpose of the PSI Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.
The 4 Principles for Sustainable Insurance

Principle 1
We will embed in our decision making environmental, social and governance issues relevant to our insurance business.

Principle 2
We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Principle 3
We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

Principle 4
We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.
### UNEP FI’s work on climate change

*Adjusting financial systems in response to the dual materiality*

#### 1. Climate risk disclosures

- **Data & methods for assessments & disclosures**
- Responding to the Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and corresponding, emerging regulation

#### 2. Climate alignment

- **Scenario-based targets to decarbonize portfolios in line with ‘well below 2 degrees’ or ‘net-zero by 2050’**
- Responding to Article 2.1.c of the UNFCCC Paris Agreement

<table>
<thead>
<tr>
<th>Banks</th>
<th>Investors</th>
<th>Insurers</th>
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<tbody>
<tr>
<td>&gt; 100 banks developing and piloting transition- and physical risk methodologies for corporate loanbooks, now widely used in the industry</td>
<td>40 investors pioneering climate-value at risk (VAR) to capture transition and physical climate-related risks in listed equities, corporate</td>
<td>22 insurers developed &amp; piloted transition-, physical, and liability-risk methodologies</td>
</tr>
</tbody>
</table>

- **Net Zero Banking Alliance:**
  - >100 banks with > USD 65 trillion in assets incl USD 6 trillion in non-OECD

- **Net Zero Asset Owner Alliance:**
  - 71 Asset Owners with > USD 10 trillion

- **Net Zero Insurance Alliance:**
  - 20 insurers with > 20% of world premium
NET ZERO
The climate crisis demands finance sector leadership

THE CRISIS
To achieve the 1.5°C warming ambition of the Paris Agreement, \( \text{CO}_2 \) emissions need to be cut in half every 10 years until 2050

THE CHALLENGE
To meet this decarbonization goal, the global community will need to invest about $4 trillion each year until 2050\(^1\), in innovative tech, adaptation, and mitigation. Public sector finance alone is far insufficient to the task.

\(^1\) What's the cost of net-zero? Race to Zero (link)
Global UN Campaign
Accredits the commitment & sets minimum standards for Net-Zero for non-governments, including:
Finance
Corporates
Cities
Regions
Universities
Hospitals
etc.

WORLDWIDE

The Alliances are part of an international net-zero network

FINANCE INDUSTRY

GFANZ
Glasgow Financial Alliance for Net Zero

Net-Zero Banking Alliance NZBA
Net-Zero Asset Owner Alliance NZAOA
Net-Zero Insurance Alliance NZIA
Net-Zero Asset Managers Initiative NZAM
Net-Zero Financial Service Providers Alliance NZFSPA
Net Zero Investment Consultants Initiative NZICI
Paris-Aligned Investment Initiative PAII

UN-convened
State of implementation – NZAOA

Setting Intermediary Targets Starting 2025

- Covers all major asset classes: listed equities, corporate bonds, real estate, infrastructure

- Portfolio GHG reduction range by 2025: 22% - 32%

- Portfolio GHG reduction range by 2030: 49% - 65%

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<thead>
<tr>
<th>Engagement targets</th>
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<tr>
<td>- Engage with 20 companies focusing on those with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager)</td>
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<tr>
<td>- Contribute:</td>
</tr>
<tr>
<td>- Asset Manager Engagement: Each member to participate in at least one engagement led by the Alliance</td>
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<tr>
<td>- Alliance positions: Each member, where possible, to participate in Alliance position paper creation</td>
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<th>Sector targets</th>
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<tbody>
<tr>
<td>- Intensity-based/absolute-reductions on all material sectors.</td>
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<td>- Scope 3 to be included wherever possible.</td>
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<tr>
<td>- Sector specific intensity KPIs recommended.</td>
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<tr>
<td>- Sectoral Decarbonization Pathways used to set targets.</td>
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<table>
<thead>
<tr>
<th>Sub-portfolio (later portfolio) emission targets</th>
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<tbody>
<tr>
<td>- 22 to 32% CO2e reduction by 2025 (per IPCC 1.5°C SR scenarios) on equity and debt to listed corporates, infrastructure, and with the same reduction or CRREM national pathways for real estate.</td>
</tr>
<tr>
<td>- 49 to 65% CO2e reduction by 2030 (per IPCC 1.5°C SR scenarios).</td>
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<tr>
<td>- Covers portfolio emissions Scope 1 &amp; 2, tracking of Scope 3.</td>
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<tr>
<td>- Absolute or intensity-based reduction KPIs.</td>
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<table>
<thead>
<tr>
<th>Financing transition targets</th>
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<tbody>
<tr>
<td>- Reporting progress on a climate-positive trend for all Alliance members internally to the Alliance; an individual public quantitative progress target is optional for members.</td>
</tr>
<tr>
<td>- Contribution to Alliance’s financing transition sub-work tracks, for example, supporting activities to provide greater transparency, build solutions or enhance climate solution reporting.</td>
</tr>
</tbody>
</table>

(UN Pension Fund): reduce absolute footprint of equity and corporate bonds portfolios 40% by 2025.

(CDPQ): Hold $54 billion in green assets and create a $10-billion transition envelope.
State of implementation – NZIA

Key NZIA implementation milestones (2022-23)

- PCAF Scoping Document on Insurance Associated Emissions public consultation (in collab with NZIA) (Mar 2022)
- NZIA White Paper on Net-Zero Insurance (Apr 2022)
- PCAF Insurance-Associated Emissions Standard (in collab with NZIA) (Oct or Nov 2022)
- Launch of NZIA Target-Setting Protocol (in collab with SBTi, part of SBTi Financial Net-Zero Standard) (Jan 2023)
- NZIA members to individually set and publish intermediate science-based 5-year targets (Jul 2023)
Net Zero Banking Alliance

Industry-led
The Steering Group oversees strategy and decision-making. It comprises 12 member seats and the UN Secretariat and is overseen by the Chair.

UN-convened
The UN Secretariat provides the day-to-day administrative oversight to the Alliance and has a permanent seat on the Steering Group.
The Commitment

Members of the Alliance commit to transition the operational and attributable GHG emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner.

- Set **2030 & 2050 net-zero targets** which are founded on science-based no/low-overshoot scenarios and are aligned with the 1.5°C warming ambition outlined in the Paris Agreement

- **Annually report** on targets and progress and take a robust approach to the role of offsets in transition plans.
Targets should prioritize those sectors that represent the bank's largest GHG emissions and/or GHG intensities in their portfolio. A template for publishing these targets will be made available.
Intermediary target-setting. Targets are to be attained by 2030.

- Covers everything on balance-sheet (lending and investing) – off-balance sheet guidelines under development
- Covers 9 key economic sectors
- Reduction ranges based on 1.5 no/low-overshoot IPCC/IEA scenarios
- Banks have 18 months to issue targets for highest impact areas, and 36 months for all 9 economic sectors
Examples of NZBA targets

- **12 banks** have already published 2030 targets
- **Early targets promising** but require additional assessment.

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**Example: Intesa Sanpaolo targets, based on IEA NZE 2050**

**Example: Citi group targets, based on IEA NZE 2050 and IEA SDS**
### 10 largest banks in each region

Highlighted in blue are NZBA members

<table>
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<tr>
<th>Asia Pacific</th>
<th>North America</th>
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<td>Communications</td>
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<td>Lloyds Banking Group</td>
<td>Banco de Crédito y Inversiones</td>
<td>Al Rahji Banking</td>
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What makes net-0 pledges credible?

Best practice features in finance sector net-0 commitments

1. Align with science-based, no/low overshoot 1.5°C scenarios
2. Align with the assumptions and criteria of the scenarios (including by sector) as soon as possible
3. Establish near-term (ideally 5-year) targets
4. Commit to transparent reporting of GHG emissions and their allocation to real-economy inventories
5. Establish an appropriate emission scope, striving for full coverage as soon as possible
6. Strive for real-economy impact, enabling the transition
7. Require neutralisation of residual emissions
8. Finance the transition (considering investments required for the transition and a Just Transition)
9. Provide transparency on metrics, underlying scenarios and methods used to classify products as sustainable, including appropriately disclosing the sustainability impact of products and services
10. Identify unique purpose implementation; and
11. Disclose transparently and comprehensively the scenarios, metrics, and targets employed, and disclose progress ideally annually.
Part II

Sustainable Finance in RBEC Region

Suren Poghosyan, SDG Finance Advisor for Europe and CIS Region, UNDP
UNDP and the Sustainable Finance in RBEC Region

Suren Poghosyan
SDG Finance Advisor for Europe and CIS Region, UNDP
THE PROBLEM

SDG financing need has increased by 70% from $2.5 trillion to $4.2 trillion.

Equivalent of 52 million full-time jobs were lost.

Of the total increase in global FDI flows, ~75% is in developed economies.

Fossil fuel subsidies increased to $6 trillion last year.

Since Paris, commercial banks invested $3.8 trillion into fossil fuels.

There is $418 trillion in global finance & only 1% would address the financial gaps.
The Solution

A Sustainable Finance Architecture
deliberately designed to:

• Accelerate investment in the Sustainable Development Goals

• Account for its progress to a broad range of actors
UNDP Sustainable Finance Hub Service Offers

- Public Finance for the SDGs
- Unlocking Private Capital and aligning business operations for the SDGs
- SDG Impact Management and Finance Tracking
- Integrated National Financing Frameworks and Country Portfolios
- SDG Finance Academy
SDG Finance Dashboard

SFH 4+1 Service Offers

- A. Public Finance for SDGs
- B. Unlocking Private Capital
- C. SDG Impact Measurement
- D. Integrated National Planning

SDG Finance Area by CO

- Albania
- Moldova
- Armenia
- Montenegro
- Azerbaijan
- North Macedonia
- Belarus
- Serbia
- Bosnia and Herzegovina
- Tajikistan
- Georgia
- Turkey
- Kazakhstan
- Turkmenistan
- Kosovo
- Ukraine
- Kyrgyzstan
- Uzbekistan
- Armenia
- Kazakhstan
- Uzbekistan
- Kyrgyzstan
- Tajikistan
- Bosnia a.
- Turkmenistan
- Albania
- Georgia
- Montenegro
- Moldova
- Turkey
- Azerbaijan
- North M...

* References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999)
Integrated Approach

- Public Finance for the SDGs
- Unlocking Private Capital and aligning business operations for the SDGs
- SDG Impact Management and Finance Tracking
- Integrated National Financing Frameworks and Country Portfolios
- SDG Finance Academy
# UNDP Toolkit to address CC Finance budgeting

<table>
<thead>
<tr>
<th>Objective</th>
<th>Tool</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNDERSTAND HOW MUCH GOVERNMENT SPENDS ON CC</strong></td>
<td>CPEIR (Climate Public Expenditure and Institutional Reviews)</td>
</tr>
</tbody>
</table>
| **MAKE CC FINANCE VISIBLE IN BUDGETS** | CC budget tagging  
  - Budget annex on CC allocations  
  - CC Citizen’s Budget |
| **MOBILIZE AND ALIGN MORE RESOURCES FOR CC** | CC criteria as an additional weight in project prioritization process  
  - Engage with the Parliament on CC budget scrutiny  
  - Green Bonds |
| **INCREASE ACCOUNTABILITY FOR BUDGET SPENDING ON CC** | CC budget reporting  
  - Collaborative research on CC expenditures (CSOs) |
| **BRIDGING CC PLANNING WITH REGULAR BUDGETING PROCESSES** | CC Financing Framework integrated into Medium-Term Expenditure Framework and budget templates of a government  
  - Climate Change Budget Integration Index (CCBII) |
Evolution of integrating CC finance in PFM

Country level: Sequencing of interventions

- Informing (presenting facts)
  - CPEIR
  - Climate Change Budget Integration Index (CCBII)

- Engaging and Convincing (creating demand)
  - Policy briefs
  - Civil society
  - Parliament

- Enabling (enabling supply)
  - MTEF/Budget proposals
  - CC prioritization at budget formulation
  - Budget coding
  - Expenditure Reporting
  - Expenditure Analysis

Integrated Climate Change Financing Framework (CCFF)

Improved CC budget decisions and accountability
UNDP Role
Experience translated into Knowledge

BUDGETING FOR THE SDGs
A Modular Handbook

Budgeting for the Sustainable Development Goals
Aligning domestic budgets with the SDGs
Guidebook (2020)

BUDGETING FOR CLIMATE CHANGE
A Guidance Note for Governments to Integrate Climate Change into Budgeting
With a Focus on Medium-Term Budgets

KNOWING WHAT YOU SPEND
A guidance note for Governments to track climate finance in their budgets

United Nations Development Programme
Part III

Sustainable Finance Regulation
Taxonomies, disclosures and prudential regulation

Daniel Bouzas Luis, Regional Coordinator for Europe UNEP FI
Global private finance interest for sustainable finance has grown considerably in recent years. The success of market-based, voluntary initiatives such as the PRI, PRB, PSI, the net-zero global alliances suggest the private finance industry is committed to making a substantial contribution and to driving the low-carbon and sustainability transition in the real economy.

Similarly, policy and regulatory frameworks increasingly play a key role in supporting the finance industry meet these targets as well as reducing exposure to sustainability-related risks (i.e., double materiality). The UNEP Green Finance Measures Database registers over 680 sustainable finance policy measures from 100 countries.

The finance industry increasingly needs harmonized and sound policies that ensure clarity of direction, facilitate a just transition in key economic sectors, support the realisation of voluntary commitments and help prevent reputational risks/fight greenwashing.
Regulatory frameworks on sustainable finance take different shapes, the most common containing different aspects, underpinned by common definitions, disclosures and risk management rules.

By using EU and international examples we will briefly examine:
- Taxonomies
- Disclosures
- Prudential rules

By financial regulation we mean:
Integration of sustainability considerations across financial regulatory frameworks:
1. Disclosures of institutions, activities, products, instruments;
2. Governance, duties and processes of institutions, activities, products, instruments. Including for both risk and impact management of sustainability issues;
3. Taxonomies, standards, tools;
4. Financial system stability and risk mitigation mechanisms (macroprud).

Supported by adequate supervisory frameworks to ensure enforcement, compliance and fight greenwashing.
Entities in scope of financial regulation can include (varies across jurisdictions):
- Non-financial corporates
- Banking, investment services and activities
- Insurance
- Pensions providers (and/or under labour regulation)
Global effort on taxonomies
EU Taxonomy

CLIMATE CHANGE

**Mitigation**

**Adaptation**

Other objectives

**Transition to a circular economy**

**Pollution prevention and control**

**Sustainable use and protection of water and marine resources**

**Protection and restoration of biodiversity & ecosystems**

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**Mandatory disclosures: The Taxonomy Regulation mandates three user obligations:**

**Financial market participants**

- **Offering financial products in the EU, including occupational pension providers**

  - Article 5 – Article 7

  - How and to what extent the Taxonomy was used in determining the sustainability of the underlying investments;
  - To what environmental objective(s) the investments contribute; and
  - The proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.

**Large companies**

- **Who are already required to provide a non-financial statement under the Non-Financial Reporting Directive**

  - Article 8

  - The proportion of turnover aligned with the EU taxonomy;
  - CAPEX and OPEX aligned with the EU taxonomy;
  - This requirement includes FI’s portfolios, with specific KPIs based on their financing of the above-mentioned activities

**The EU and Member States**

- **When setting out measures on standards or labels for green financial products or green (corporate) bonds**

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**Note:**

- KPIs established in the Article 8 Disclosures Delegated Act
Disclosures

Sustainability disclosures to date either address **entities** (e.g., disclosure guideline for listed companies), **financial products** (e.g., disclosure requirements for sustainable retail investment products) or **both** (e.g., institutional investors must report on the entity and on the product level).

In order to correctly assess, report on and manage the full spectrum of inside-out (i.e., impacts on the environment and people) and outside-in (i.e., climate / environmental risks for entities) arising from ESG factors, comprehensive disclosure requirements at product, investees corporate and investor financier level are needed.

Currently we have seen an increased relevance at the global level of disclosure regimes, with critical evolutions happening as well in Europe and the US:

- **The EU Taxonomy is a disclosure regime as we have seen previously**
- **The International Sustainability Standards Board (ISSB)** – part of IFRS has released their initial Exposure Drafts on Sustainability reporting and climate-related reporting
- **At EU level, EFRAG released 13 Exposure Drafts covering general and climate topics, but also all other elements relating to E, S and G** – this is an update to the CSRD that requires large companies to disclose sustainability data
- **CSDD will work on further disclosures as well on due diligence, value chains and related elements**
- **Pillar 3 disclosures (prudential approach)** – disclosing transition and physical risks
- **The US’ SEC released as well their climate disclosure rules, bringing also the need to report not only on outside in risks but also GHG emissions.**
- **SFDR (EU)** – disclosures at product level for retail financial products

All of these disclosures need to be underpinned by robust data collection for availability and usability.
Prudential regulators are a key pillar for financial stability worldwide, ensuring that financial institutions under their supervision are behaving adequately. In recent years, their responsibilities have also expanded, with global initiatives such as the Network for Greening the Financial System, and relevant papers published by the BIS & BCBS showcasing the importance to manage and consider ESG risks (especially climate risks) in their activities.

Their toolbox is quite varied, being able to act upon different streams and activities of the FIs they regulate:

**Pillar 1 measures**
Regulators can impose penalizing or supporting factors into the Basel capital requirements on how banks manage their portfolios.

**Pillar 2 measures**
Regulators can monitor how FIs are performing and how sound their business model is to tackle ESG risks, adjusting capital requirements as necessary if risks are identified. (e.g. CB Hungary)

**Pillar 3 disclosures**
Requiring banks to disclose how their portfolio is prepare to withstand outside in climate risks, as well as how well is it adjusted to finance more sustainable assets.

**Stress testing**
This is an increasingly utilized tool, that benefits from being known on the financial front by the supervised institutions, as well as being a good way for institutions to plan ahead and manage risks actively.

**Own operations & monetary policy**
In addition, central banks can also incorporate sustainability considerations in monetary policy and their own operations.
## SF work in progress in EU FinReg

<table>
<thead>
<tr>
<th>Sustainability..</th>
<th>EU FinReg framework</th>
<th>Opportunities for improvement</th>
<th>Engagement channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>..disclosures of financial institutions and listed entities</td>
<td>✓ TR; CSRD; SFDR; CRR</td>
<td>SMEs, households Off BS, Underwriting</td>
<td>EU PSF, ESAs, ECB:</td>
</tr>
<tr>
<td>..risk management of institutions</td>
<td>✓ CRR/CRD Solvency, IORPS, FMPs</td>
<td>CRR Pillar 2 Off BS</td>
<td>- Taxo4 Usability</td>
</tr>
<tr>
<td>..risk management of financial system (macroprud)</td>
<td>✓ Stress tests</td>
<td>Data quality</td>
<td>- Enhance banking regulatory framework</td>
</tr>
<tr>
<td>..impact management, target setting in governance and processes of institutions</td>
<td>✓ CSDD; targets, transition plans</td>
<td>IORPS, FMPs Solvency too high level</td>
<td>- Support transition plans/target setting</td>
</tr>
<tr>
<td>..standards, tools, definitions</td>
<td>✓ Taxo, EUGBS, BMR</td>
<td>Env, social taxonomy SLL, SLB</td>
<td>- Implementation support on Pillar 3 (EBA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Support on impact mgt process (EIOPA) (LFI)</td>
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<td></td>
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<td>- Stress test coordination (NGFS)</td>
</tr>
</tbody>
</table>
Sustainability integrated across EU FinReg

**Financial intermediaries**
- **Climate BMR**
  - Benchmark administrators
  - EU PAB/CTB standards
- **SFDR**
  - Entity and product level disclosures for FMPs
- **UCITS, AIF, IBIP, PEPP**
  - Financial products
  - FD rules

**Financial advisors**
- **MiFID II** (suitability/POG/risk management)
  - Financial advisors, products
  - Inv. firms class 1-2-3
- **IDD**
  - Insurance distributors

**Corporate disclosure (financial and non-financial)**
- **Taxonomy Regulation**
  - Entity and product level disclosures
- **CSRD**
  - ESRS/EFRAG
  - Entity level disclosures

**Corporate governance, shareholders**
- **CG Due Diligence Directive (CSDD)**
  - Corporate duties
- **SRD II**
  - Shareholder engagement

**Issuers, instruments**
- **EU GBS**
  - Issuers
  - + Green securitization
- **Prospectus (SF in dev)**
- **Securitisation (SF in dev)**

**Banks, pensions, insurers**
- **CRR/CRD**
  - Credit insti, Inv.firms class1
  - Pillar II, III
- **IORPS**
  - Pension providers
- **Solvency II**
  - Insurers/underwriters
- **Macroprudential policy**
Q&A

Do you have a question or comment?

- Type “Q” in the chat space, followed by your question
- If you want to speak your question, type “QSp” and also ‘raise your hand’
Knowledge Quiz
THANK YOU

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