

Sustainable Finance

Cyprus

20th January 2023

Alice Chapple

Outline

- 1) The current social and environmental context
- 2) The need for a shift in capital flows
- 3) Challenges and shortfalls
- 4) Emerging success stories

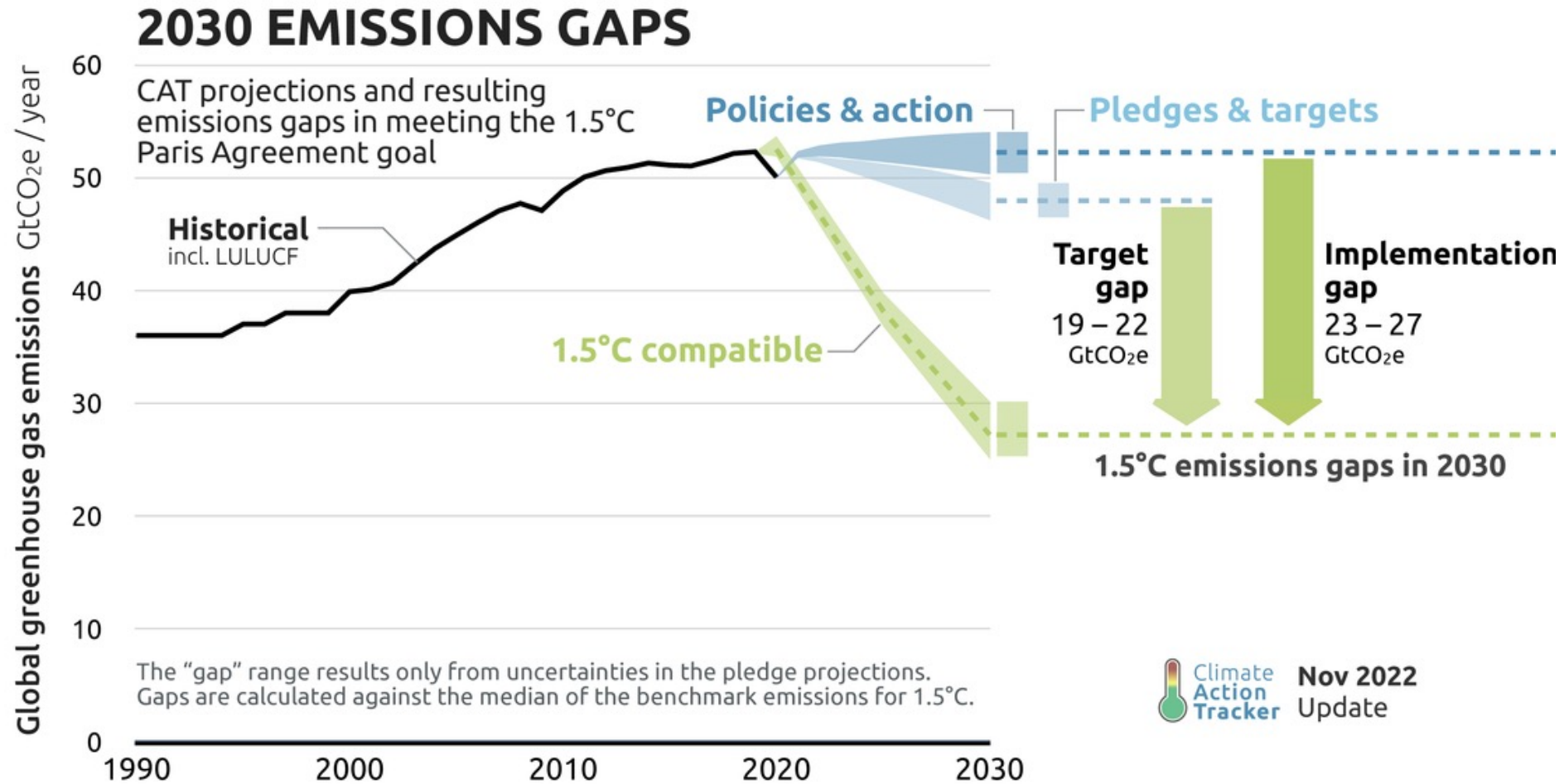
We are risking critical earth systems and overstepping their boundaries



Source: [Final Report: The Economics of Biodiversity: Dasgupta Review](#)

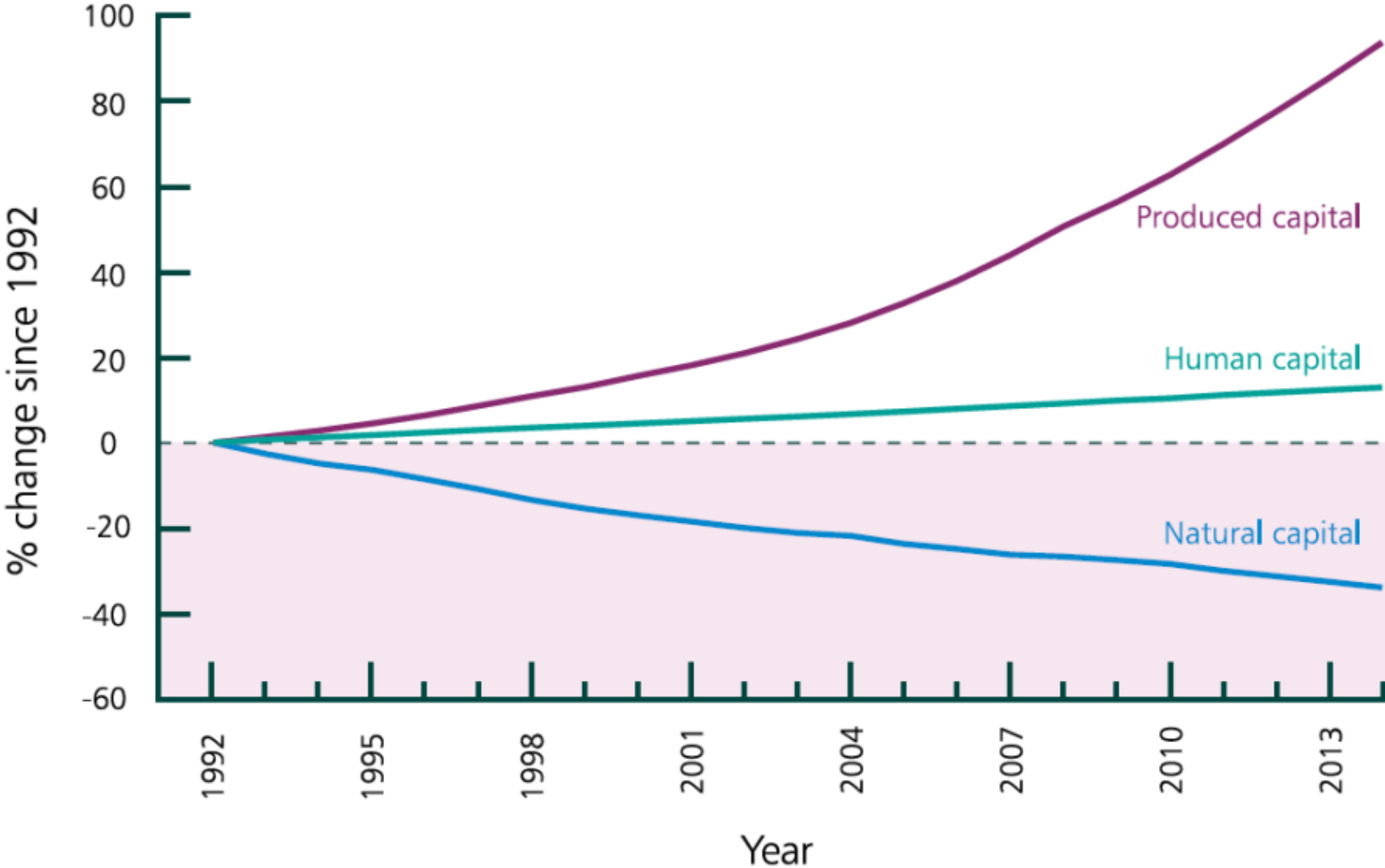
Source: Lokrantz/Azote based on Steffen et al. (2015). Note: P = phosphorus; N = nitrogen; BII = Biodiversity Intactness Index and E/MSY = extinctions per million species per year.

Current policies, pledges and targets are not compatible with 1.5°C goal



Source: [Climate Action Tracker](https://climateactiontracker.org/)

GDP growth has been achieved at the expense of natural capital



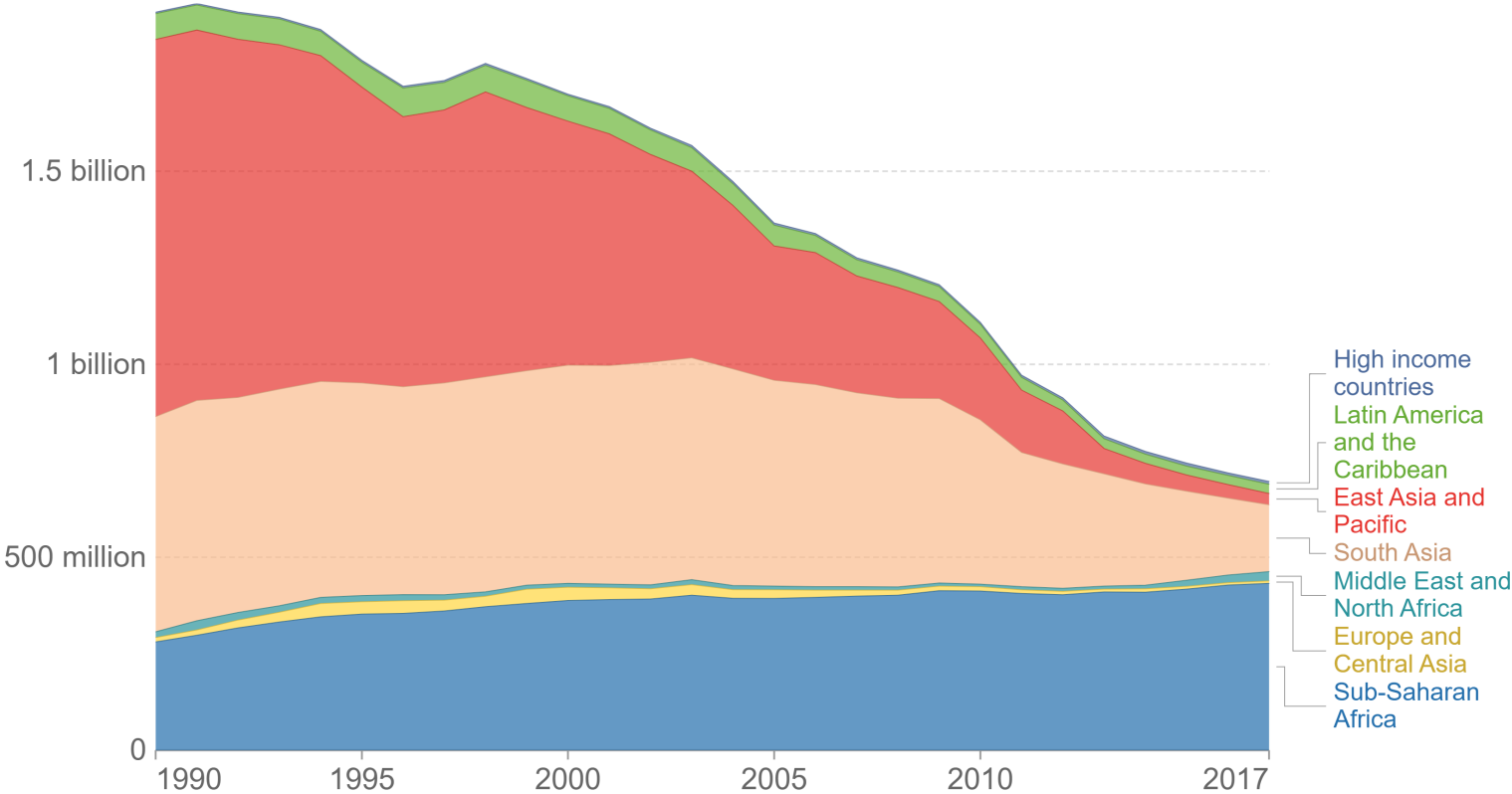
Source: Managi and Kumar (2018) cited in [Dasgupta Review](#)

Poverty has fallen in some parts of the world but is persistent in others

Total population living in extreme poverty by world region

Extreme poverty is defined as living with per capita household consumption below 1.90 international dollars per day (in 2011 PPP prices). International dollars are adjusted for inflation and for price differences across countries.

Our World
in Data



Source: PovcalNet (World Bank)

OurWorldInData.org/extreme-poverty/ • CC BY

Note: Consumption per capita is the preferred welfare indicator for the World Bank's analysis of global poverty. However, for a number of countries poverty is measured in terms of income. An income basis is common amongst high income countries and Latin American countries.

A shift in capital flows is needed to achieve wider sustainable outcomes

(1) To meet SDGs globally -

Additional **US\$5-7 trillion¹ per annum** of public and private investment into low-carbon infrastructure, energy, agriculture, health, education and other sustainability sectors.

Source: World Bank ¹

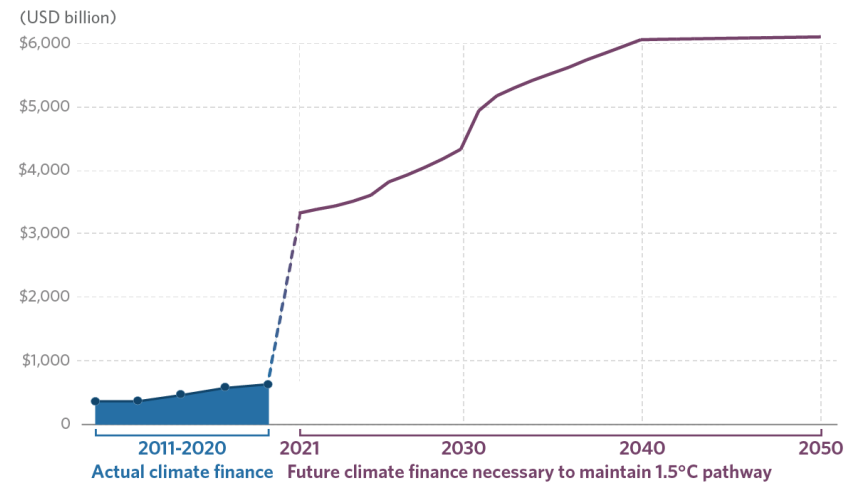


(2) To meet Paris Agreement targets -

Climate finance must **increase 590% to \$4.5 trillion per annum** until 2035 to limit temperature rise to below 1.5 °C from pre-industrial levels.

Source: Climate Policy Initiative ²

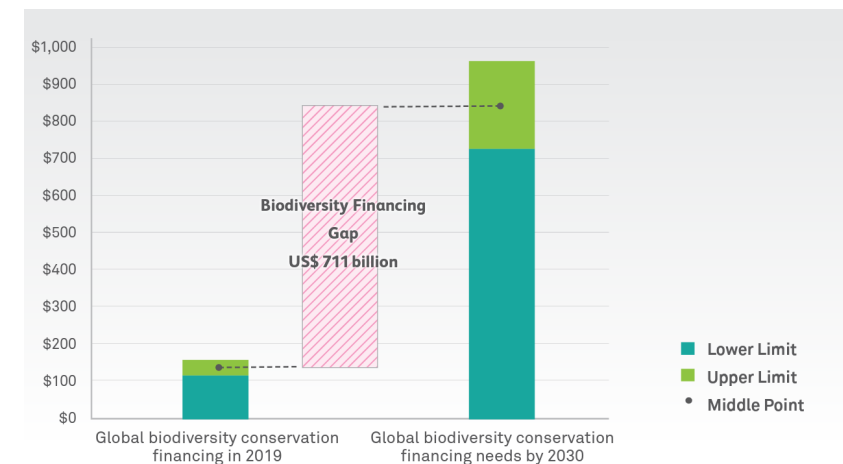
Figure 3: Global tracked climate finance flows and the average estimated annual climate investment need through 2050



(3) To be nature positive by 2030 -

Investment of **\$700 billion + per annum** is needed in projects that conserve nature

Source: Paulson Institute ³



¹ [Understanding the Cost of Achieving the Sustainable Development Goals](#), World Bank 2020

² <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>

³ <https://www.paulsoninstitute.org/conservation/financing-nature-report/>

The terminology is important for defining what is required

Sustainable finance	ESG	Impact investment
<p>Finance for activities aligned with sustainable outcomes</p>	<p>ESG is simply the process of embedding environmental, social and governance issues into financing decisions</p> <p>Much of ESG has (a) no impact on the real economy and (b) no alignment with sustainable outcomes</p>	<p>Impact investment is designed to make an intentional and measurable impact alongside financial return</p>

Investors have turned to 'ESG', but strategies are weak and lack impact

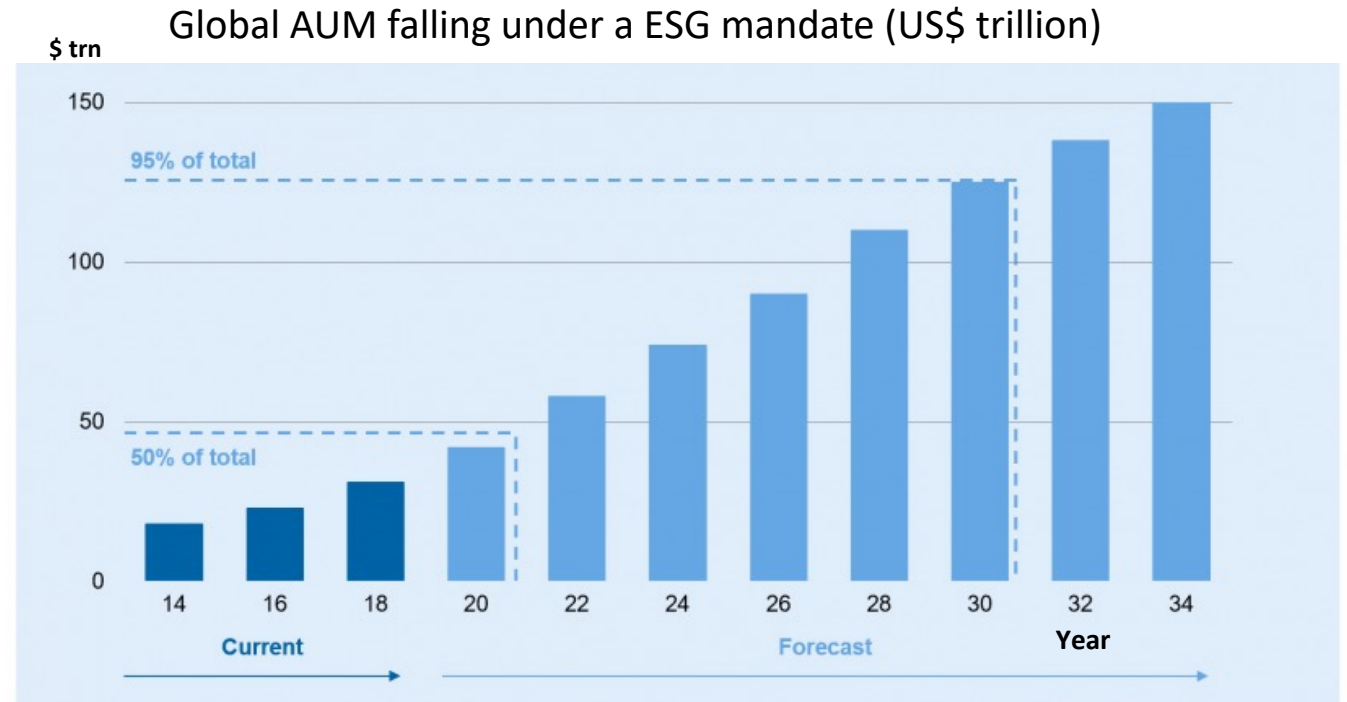
Sustainable investments total \$35.3 trillion, or more than a third of all assets in five of the world's biggest markets.

Source: [Global Sustainable Investment Review 2020](#), Global Sustainable Development Alliance

71% of equity funds specifically marketed using ESG- and climate-related key words are misaligned from the global climate targets agreed in Paris.

55% of climate-themed funds are misaligned.

Source: [Climate funds – Are they Paris-Aligned?](#) Influence Map 2021



Source: Deutsche Bank, Global Sustainable Investment Alliance, zeb research

Source: [Climate change and corporates: past the tipping point](#), Deutsche Bank research, 2019

Practical challenges

- Widely varying ESG approaches
- Greenwashing / 'greenwashing'
- Backlash against ESG

Banks and investors have adopted 'Net Zero' targets, but impact is unclear

Net Zero Banking Alliance

- **125** banks, 41 countries, **US\$73 trn assets**, 41% of global banking assets
- Net zero by 2050; 2030 targets
- Most exclude agriculture, chemicals, capital markets

Net Zero Asset Managers' Initiative

- **291** signatories, **US\$66 trn assets**
- Net zero by 2050, 2030 targets
- Energy security issues
- Fiduciary duty position in US

Practical issues

- US legal challenges on 'woke capitalism'
- Transition in hard-to abate sectors (cement, steel)
- Divestment vs engagement
- The role of offsets
- Substitution of finance

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Vanguard quits climate alliance in blow to net zero project

World's second-largest asset manager cites investor 'confusion' amid increase in criticism from Republicans



Opinion [The FT View](#) [+ Add to myFT](#)

Ron DeSantis's war on woke puts BlackRock on the frontline

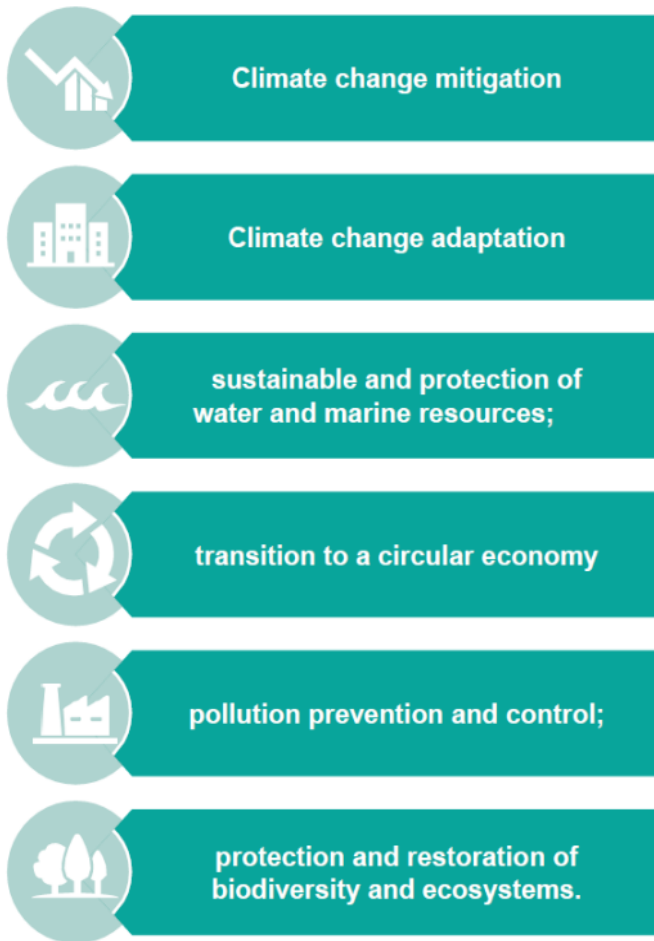
Florida is the latest Republican state to target ESG investing

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Regulatory responses in the EU have largely been climate-related to date

The EU taxonomy



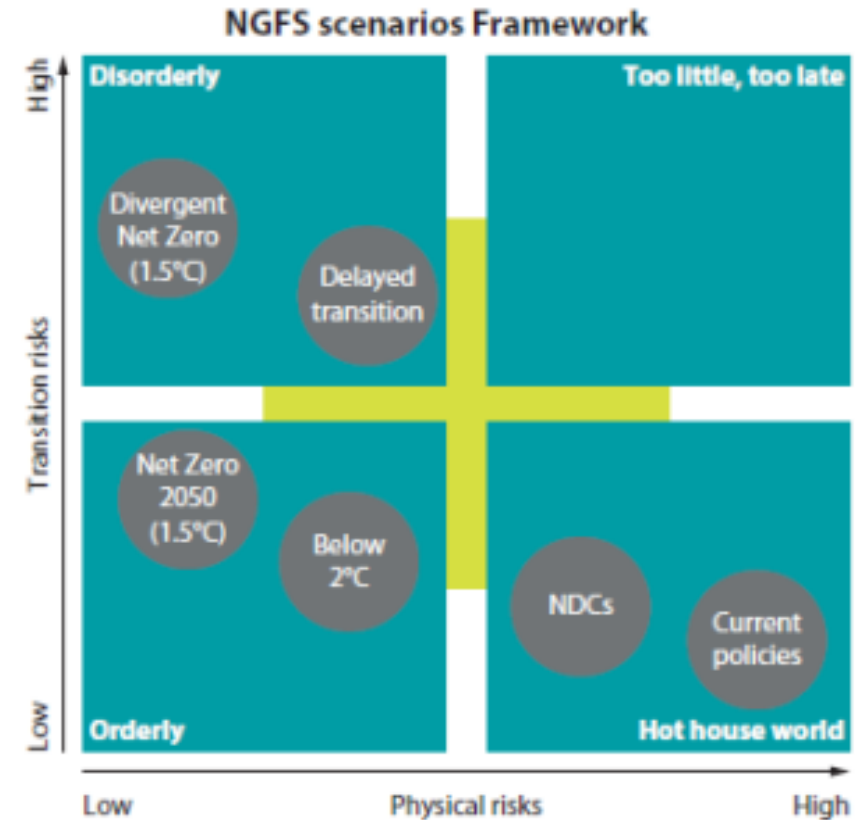
Source: [Taxonomy: Final report of the Technical Expert Group on Sustainable Finance](#)

TCFD



Source: TCFD

Network for Greening the Financial System



Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100.

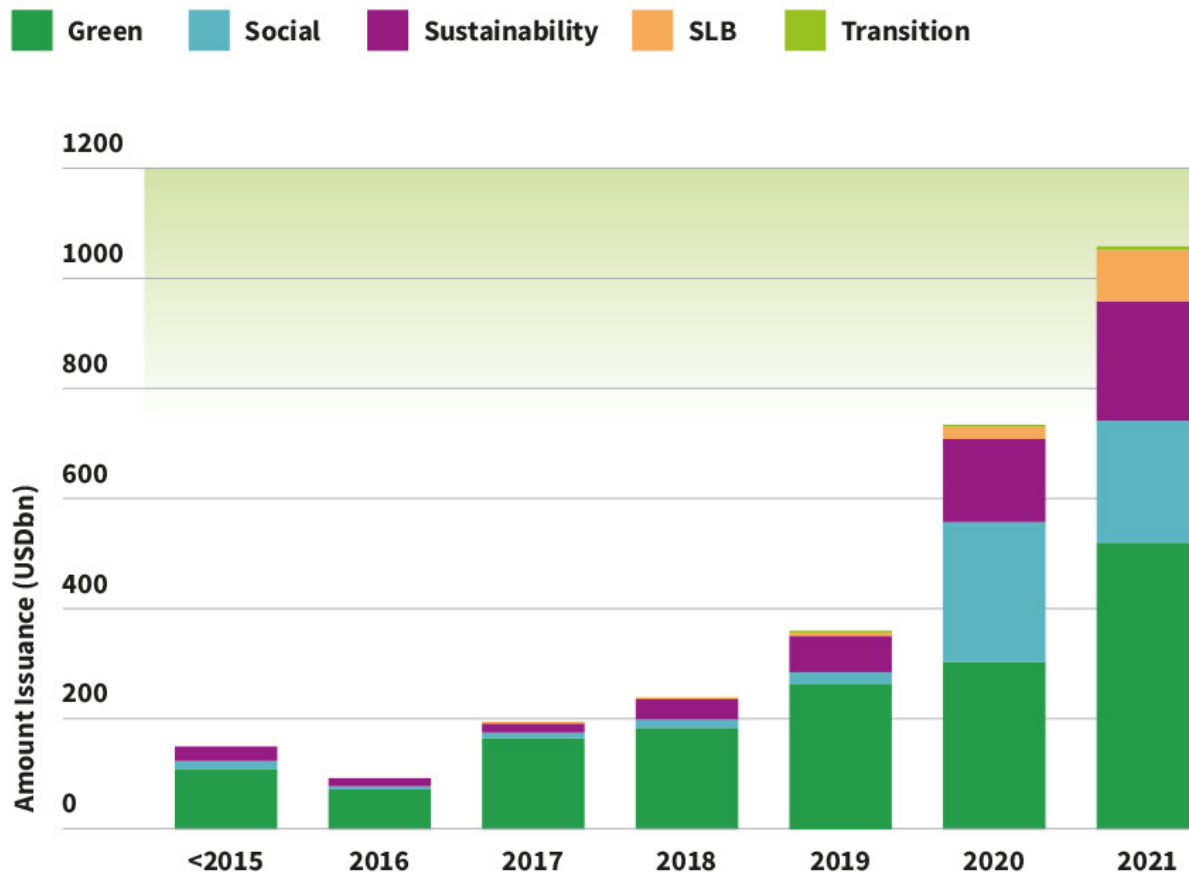
Source: [Network for Greening the Financial System – Climate Scenarios for central banks and supervisors](#)

Emerging success stories (with caveats)

(a) Growth in green bonds and sustainability-linked loans and bonds

GSS+ debt volume surpassed USD1tn in 2021

Climate Bonds INITIATIVE



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SUSTAINABILITY 21 MARCH 2022

Chile sets a trend with first sovereign sustainability-linked bond

Chile becomes the world's first country to use sovereign debt to fund its long-term climate initiatives and accelerate its energy transition.



PRI BLOG

Sustainability-linked loans: A strong ESG commitment or a vehicle for greenwashing?

20 July 2022

Emerging success stories (with caveats)

(b) Disclosure beginning to affect asset pricing



90% of investors and other users incorporate climate-related financial disclosures into financial decision-making

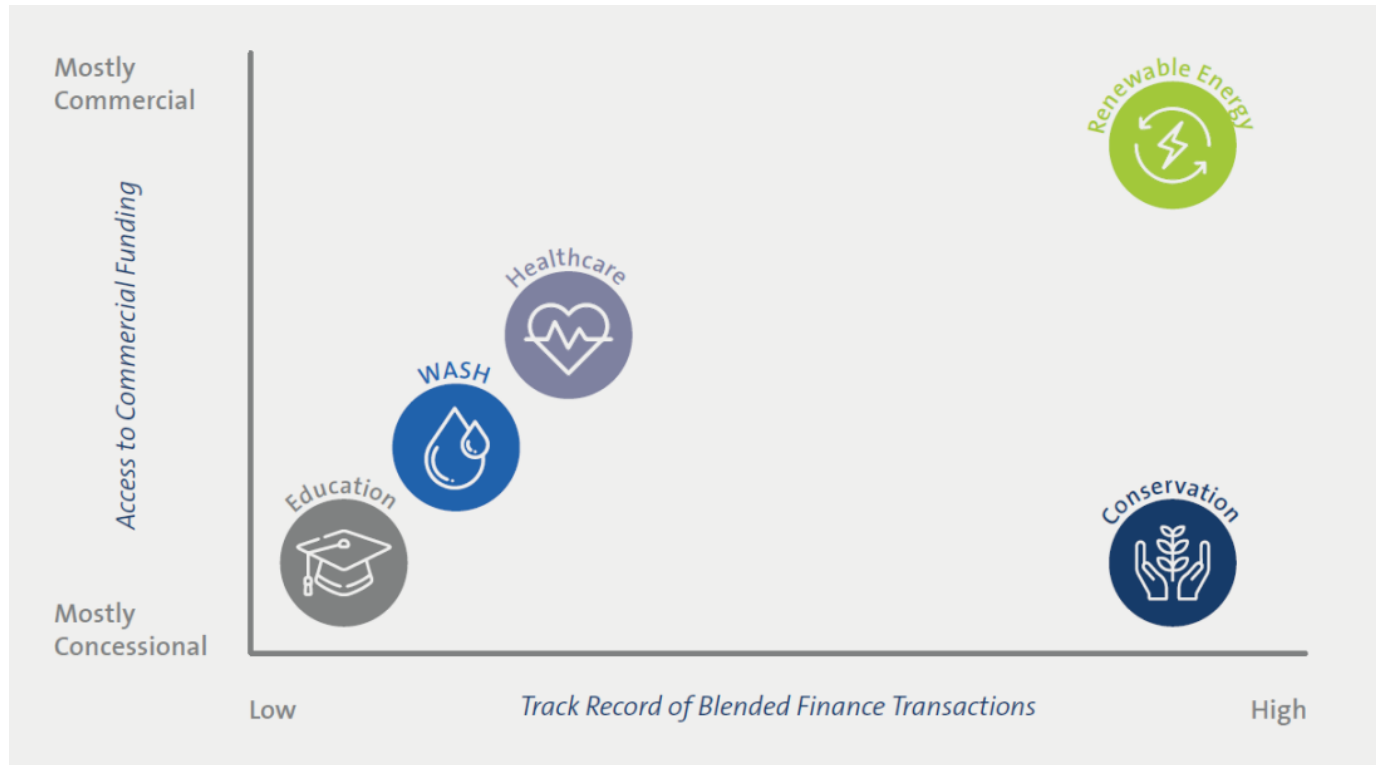
66% indicated that these disclosures were a factor in pricing of financial assets

But **98%** of industrial companies failed to provide sufficient climate risk evidence in their 2021 financial statements, according to a [Carbon Tracker report](#).



Emerging success stories (with caveats)

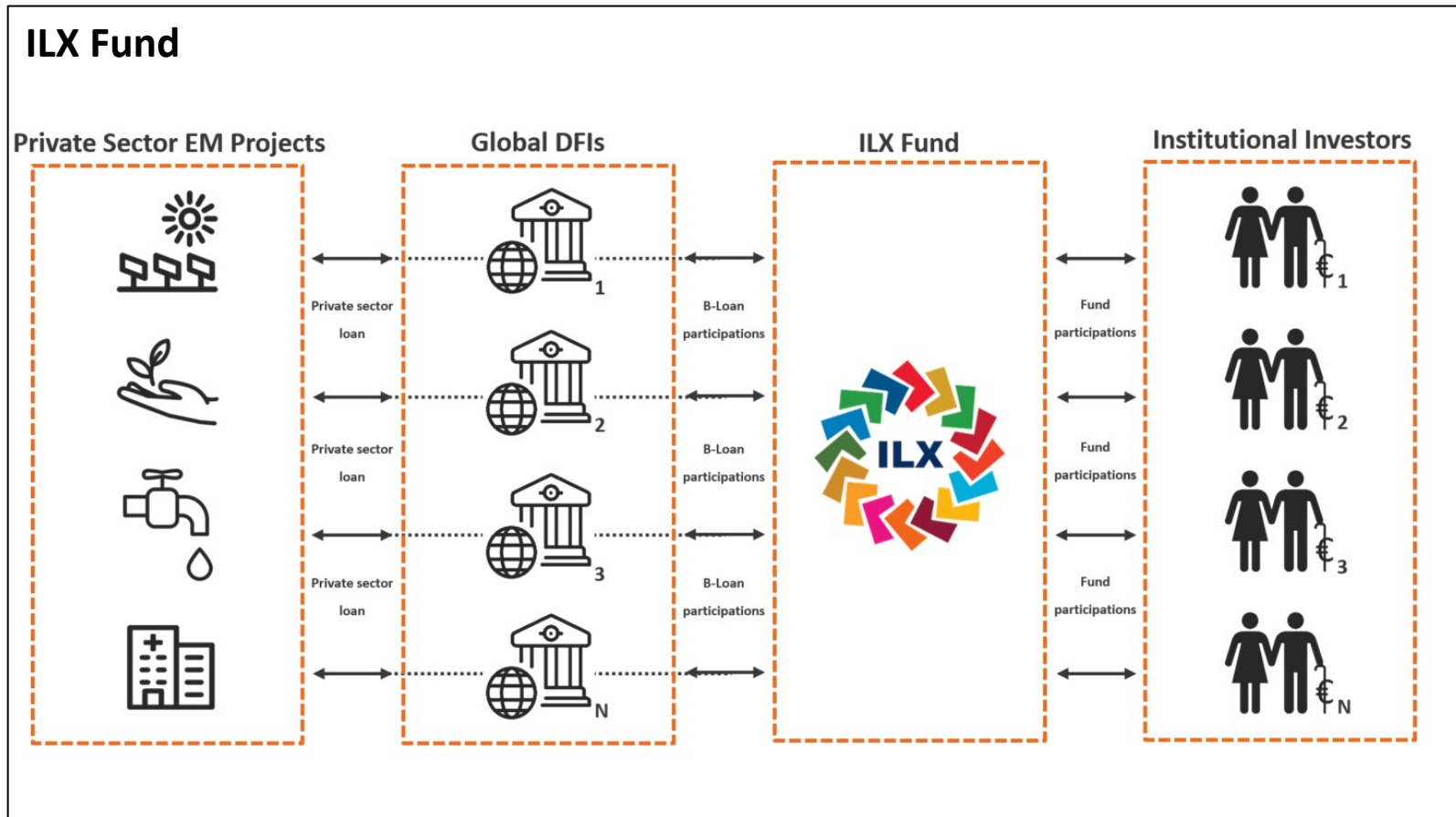
(c) Blended finance combining public and private funds



Source: https://ibf-uzh.ch/wp-content/uploads/2022/02/Blended-Finance_When-To-Use-Each-Instrument_Phase-1-final.pdf

Emerging success stories (with caveats)

(d) Instruments to enable investor allocation to impact



Schroder Big Society Capital Social Impact Trust

