FINANCE STRATEGIES INCLUSION CIRCULAR ECONOMY

Finance for a Green Economy

Getting a stake in the transition

Why finance is key

Understanding finance is essential for all aspects of the green economy transition – financing is needed to support new sectors, build new infrastructure, retrain workers, and fill funding gaps in the global south so that climate targets can be reached fairly. But new funds aren't enough alone to ensure that the green economy takes off - new mechanisms and institutions to channel funds to the poorest are just as important. The public and private sector each have a key role to play in providing capital – including in partnership where 'blended' finance can help de-risk investments and get money where it matters

Stabilize – Re-direct - Democratize

Ultimately, we need a new global and local financial architecture. Finance for a green economy isn't just about new pots of money, it means fundamental reform with new systems and incentives for all kinds of financial actors. We need a finance system that is stable, set up to respond to environmental systemic risk, and can translate warnings into actionable intelligence for investors – stop investing in brown, start investing in green. And soon. As long as the finance system is geared to short-termism, its contribution to the green economy will only be partial. Immediate profit will come at the expense of sustainable investments, and fossil fuel majors will be bumper stocks right up until they become victims of stranded assets. We need to push governments to hold financial actors to account and create prudent regulations so that finance is not a master but a servant of society's long-term needs.

It's certainly not easy - just as finance itself is remote from people's everyday lives, financial reform can seem complex and disconnected from the issues that matter to people. Broadening the coalition of organizations campaigning to Change Finance – demanding ambitious financial reform – and ensuring it builds wide-audience support is key. Another part of the solution must be giving people the chance to get a stake in the new economy – by making financial products suitable for the green entrepreneurs and consumers who already want to be a part of the transition. It also means giving people a stake in defining what their true 'best interests' are – clarifying the real fiduciary implications for banks to act sustainably our behalf when they invest our hard-earned savings and pensions. Without both new *financing* and new *finance reform*, the green economy transition risks arriving too late to make a difference.

What is already being done?

Governments, banks and businesses are increasingly aware of the importance of sustainable finance reform for the success of the green economy. The 2019 PAGE Ministerial gives recognition to this agenda by considering a wide range of issues under finance – a broader scope than for other themes.

<u>Finance issues at the 2019 PAGE Ministerial:</u>

- Parallel Panel – 'Enabling environments for sustainable finance'
- Parallel Panel – 'Growth in sustainable banking, insurance and investment'
- Keynote & Panel – 'Unlocking finance for sustainability'
- Parallel Panel – 'Finance and investment for sustainable consumption and production - circular economy'
- Parallel Panel – 'Partnerships for financing a resilient, sustainable economy'

Around the world, there are emerging international, business and civil society initiatives taking on the finance transition. The UNEP Finance Inquiry (UNEP FI) has led work to define the shape of a new financial system to deliver the green economy, and also to strengthen links with the finance industry. Finance Watch – the civil society counterpoint to finance sector – is framing the broader finance reform agenda and pushing for alternatives to unsustainable business as usual. Meanwhile, the financing challenge is largely focused on securing climate finance that can deliver the Paris Agreement and support the SDGs. Multilateral funds set up to distribute finance – such as the Green Climate Fund – have faced difficulties in securing additional funds and agreeing on worthy projects to support. Private finance is beginning to step up their offerings – including green bond issuance - but alignment is needed with action by national governments to ensure oversight keeps pace with innovation.

What's missing? – Voices from the ground

What would a finance system fit for the green economy transition really look like? Here we explore perspectives from experts, businesses, and civil society groups around the world.

1. Finance that is safely serving society (Finance Watch)[i]
For finance to work for everyone we need new policies, norms and institutions – but above all it needs a clear purpose. A finance system that thinks of itself as mechanically allocating capital, while lobbying and shaping societies choices is part of the problem. Legislation and macroprudential policy must ensure that financial actors of all kinds are put in service of their societies interests, broadly defined to include the environmental and social implications of their actions. And above all, banks and financial actors should act safely and to minimise systemic financial risks that result from their business models.
2. Money where it matters (IIED)[ii]
Crucial for supporting the green economy around the world is securing funds to deliver the Paris Agreement and the Sustainable Development Goals. With the funding gap for the SDGs alone estimated at $2.5 trillion per annum it is essential that alternatives to traditional financing are explored. Putting money where it matters – directly in the hands of local governments, community organisations, NGOs, micro-enterprises – is a way of using decentralised financing to avoid upstream barriers faced by larger funds, while also leveraging local knowledge to improve impact.
3. Investment transparency – green savings & divestment (GEC)
Small or large, all around the world people have savings pots, investments and pensions that they want to be held securely – but also sustainably. People increasingly want to divest and opt-out of funding brown investments, but don't yet know how. Stronger investment transparency and sustainability regulations are important for providing comparable standards and clarity on the true environmental impact of their savings.
4. Innovative stress testing (GEC)
Since the global financial crisis, financial stress testing of banks by monetary authorities has become an increasingly common macroprudential practice. But why should stress testing be focused on financial considerations alone? Environmental and ethical stress testing are emerging as a way of checking the exposure of banks' and other financial actors' balance sheets to environmentally destructive and socially damaging investments.
5. Brown penalising factor (Finance Watch)[iii]
EU policymakers, including the High level Expert Group on Sustainable Finance, have considered adding a 'green supporting factor' to risk weights of sustainable loans, making more appealing for banks to hold them. This approach is modelled on the 'SME supporting factor' already adopted – but just the same offers the risk of increased leverage and stability, with unclear returns. An alternative that offers less risk and more impact is a 'brown penalising factor' that does the opposite, making it harder for banks to hold and leverage brown loans.

Policy Headlines

Preparing the ground for the PAGE Ministerial:

- ✓ ***What policies can ensure that the finance system is fit for the green transition – and funds it?***
- ✓ ***How can the system be shaped so it helps people get a stake in the transition?***
- ✓ ***What does this mean for PAGE – what should ministers prioritise on finance?***

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[i] https://www.changefinance.org/solutions/
[ii] https://www.iied.org/money-where-it-matters-local-finance-implement-sustainable-development-goals-paris-agreement
[iii] https://www.finance-watch.org/a-green-supporting-factor-would-weaken-banks-and-do-little-for-the-environment/