Inclusive finance for social inclusion.
Report of the third conference on Value Based Investors and the SDGs.
Buenos-Aires 20-21st September 2018. (draft)

This meeting brought together Latin Americans active in the Vatican, UN (UNDP, UNEP), G20, financial institutions, social movements and enterprises with international experts on carbon tracking, Islamic finance, business and ethics, green bonds, multi-stakeholder partnerships.

The keynote speakers addresses were given by :
H.M the Queen of the Netherlands , UN Secretary -General's Special Advocate for Inclusive Finance for Development
H.E! Cardinal Turkson, Prefect of the Dicastery for Promoting Integral Human Development

The meeting was co-chaired by the President of Banco Nation, Javier Gonzales Fraga and Father Zampini, Vatican Dicastery for Promoting Integral Human Development

The conference concept note underlines that *the main obstacle to a successful implementation of the Agenda 2030 ([outlined in the United Nations'] SDGs) is the growing of inequalities and poverty fueled by the [current] financial and macroeconomic model. (…) We need sustainable and responsible investors who are committed to show awareness of the existence of serious unjust situations, instances of profound social inequality and unacceptable conditions of poverty affecting communities and entire peoples and [who have a] desire to address them. There is good news: we see [substantial] growth of investors who use their resources to promote the economic and social development of marginalized groups through the investments funds [they manage or invest into.] (…)The Seminary of Experts [convened by Banco de la Nación Argentina] aimed to deepen the debates and proposals around these issues and contribute to offer the best ways and instruments to strategize new actions and partnerships to create a virtuous circle by which financial products and services are better align protecting the planet, at the service of the human person, especially those marginalized and excluded*.

1. This is about human capital and social cohesion

Inclusive finance is a critical innovation to contributes to a leap forward of humanity necessary to face planetary challenges by including those who have previously been marginalized and excluded

Social inclusion contributes to social cohesion. Social cohesion contributes to country performance and resilience which is essential to manage the planetary challenges that humanity faces in our near-term future.

Inclusive finance should be defined in 3 ways :

- Access to financial services for millions of people currently excluded to leave no-one behind ;

- Empowerment of society when the financial industry broadens its focus from shareholders to stakeholders and engages with all to address important environmental, social and economic impacts ;

- Participatory mechanisms to co-build the 'new social contract' in a safe operating space for humanity, priorities in implementing the SDGs including by relying on decentralized mechanisms of empowerment offered by the blockchain.

Social inclusion should be defined as :

- Inclusion of the Poor, as beneficiaries of financial services, in society

- Inclusion of Women, the Youth and Small producers

- Engagement with civil society as 'the indispensable partner' when addressing the 'new social contract' buidling social cohesion, derived from the SDGs

- Connection to all society as beneficiaries of the implementation of the Agenda 2030, which defines the terms of reference for a fourth and 'bright' globalisation.[1]

2. Inclusive finance and the new social contract .

Inclusive finance is a major component of the new social contract defined in terms of the SDGs that will support a fourth globalisation that operates in service of humanity.

The new social contract depends on achievement of SDG 1 (no poverty) and SDG 10 (less inequalities) to define dramatic evolution for the financial industry.

Inclusive finance as defined by the Global Partnership for Financial Inclusion, a G20 task force on inclusive finance, that is focused primarily on increased access to finance services should be enlarged to align with « inclusive finance », as defined above.

3. The power of inclusive and digital finance

As demonstrated in Latin America, Africa and Asia, inclusive and digital finance are extremely powerful tools that can support the transition to zero poverty and zero carbon emissions.

Faith organisations are playing a major role to generate trust, mobilise society, and apply inclusive finance models. Through microfinance and faith-based financial

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[1] The first three globalizations came out of the initial developments between 1815-70 following the Napoleonic Wars, then the Industrial revolution of the late 19th Century. Following WWII, further political development through the formation of the Bretton Woods institutions (IMF, World Bank and GATT, a predecessor to the WTO) encouraged further global engagement but it rapidly transformed into a globalization dominated by a shareholder-centric mentality. This fourth globalization follows the influence of modern technology and improving transport links and, by using the SDGs for guidance, holds the promise to become a more optimistic and inclusive ('bright') globalisation.

institutions, willing retail and institutional investors are able to make a contribution to the common good by aligning their financial actions so they can be of service to the poor.

4. **Inclusive finance and the new financial business model**

In order to expand the reach of inclusive finance, the voluntary efforts of individuals and institutions will need to be supported with a new « financial business model « applied by all financial institutions with five objectives :

- No one should be left behind ;
- Investments which actively and intentionally work in opposition to the SDGs should be viewed as a 'crime against humanity' and should be stopped by appropriate mechanisms including through credit rating, legal or other similar mechanisms including divestment ;
- Those acting on sustianable & inclusive finance should cooperate as « one–brain » to address interlinkages that run throughout the SDGs and generate innovation to accelerate the transition in a collaborative economy
- The One Billion Millennials must be empowered and these men and women who control a growing proportion of total investable wealth and are voting with their wallets will only continue to do so with assurance of verifiable and robust social and environmental governance practices.
- Civil society is an indispensable partner co-equal with financial institutions, regulators, policy makers and non-financial companies when addressing integrated strategies and impact on the poor and safe operating space of humanity

5. **Argentina, a special voice within the the G20**

As member of the G20, and presently its chair, Argentina has a special role to play : it speaks for the voice of the excluded as a small emerging market nation with the ability to be a neutral broker between larger nations in the G20.

The G20 should:

- commission a review of first-year TCFD disclosures to evaluate the insights and implications for financial policy makers, regulators and central banks

- request the financial stability board to provide a review of risk analysis and risk management in the public interest in relation to the « Planetary Boundaries » assessing their impact on the poor, securing just transition and avoiding risk transfers from markets to society affecting in particular the poor

- the Argentinian Central Bank itself should join the Network for Greening the Financial System and bring to its attention inclusive finance for social inclusion.

6. **Four levels of action.**

This third conference confirmed that the range of initiatives developed by financial institutions linked in one way or another to environmental and social concerns is very broad. It ranges from "green", "climate", and “sustainable” financial products to “banking on values"initiatives, from "impact investing" to inclusive finance initiatives addressing the "Care agenda" as referenced in the Laudato si'.

We can also note that the choice of financial instruments throughout history has been influenced by "religious" writings such as the Old Testament, the Qur'an and Hadith and scholarly explication of the Maqasid (higher objectives) of Shari'ah, and by Calvin,. The encyclicals of Pope John Paul II (*Centesimus Annus*), Benedict XVI (*Caritas in Veritate*) and Francis (*Laudato si '*) as well as "*Œconomicae and pecuniariae quaestiones*", the appeals by Patriarch Bartholomew I, the Stockholm Declaration co-signed by investors and the Swedish Lutheran Church, are precious references.

Although they are not unanimous in every respect (there are divergent interpretations, for example, concerning the use of or acceptable rates of interest) we can celebrate the strong areas of convergence that are being built such as within the framework of the Zug Guidelines on "*Faith in Finance*".

We also know that the proponents of the third globalization that led to the financialization of the economy and the growth of inequalities include many believers of all faiths. Therefore, the switch to a new model calls for a strategy for inclusive and sustainable finance that builds social cohesion with four levels:

6.1. The constant dialogue with all the actors of finance around the questions of risks, justice and the objectives fixed by the SDGs and Paris climate agreement.

The implementation of the SDG's will require $5 to $7 trillion in annual investment, of which $2.5 trillion annually will have to be in addition to what is being invested today. Close to half of this amount will have to come from private investments.

Today Value Based Investments represent 10% of global financial wealth according to estimates produced by the Alliance of Religions for Conservation (ARC). In order to transform the process of mobilizing private capital that includes investments managed by the faith organisations, there will need to be constant dialogue on the evolution of the nature of financial risks and business opportunities until the success of the SDGs can be reasonably assured.

6.2. Acting-as-one brain: Enhanced partnership within Sustainable & Inclusive Finance for Social Inclusion.

Presently, numerous financial initiatives on sustainable and/or inclusive finance exist and sometimes compete rather than cooperate with one another, leading to confusion, lack of efficiency, agreed direction and purpose.

Financial institutions have missed much of the benefit from their actions in support of sustainable & inclusive finance and trust in financial institutions still remains very low.

There is a lack of credible monitoring system of sustainability performances of financial institutions own actions that could rebuild the trust, promote synergies between initiatives especially on inclusive finance to support reduced carbon emissions, greater food security and other priorities within the SDGs.

Inclusive and sustainable finance platforms and initiatives must come together to act and build a global and enhanced partnership to position inclusive and sustainable finance as the keystone to achieve the promise of the fourth globalization.

A unified approach will support an *enhanced partnership* of existing leading platforms, initiatives and related investment funds with G20 task forces on sustainable and inclusive finance, the UN, Governments, Faith Organizations, Inclusive and Sustainable Youth Organizations to act *as-one-brain* and address inclusive and sustainable finance towards social inclusion and a safe operating space for humanity (see potential list of partners in annex).

6.3. New generation of Responsible Finance based on inclusive finance priorities

Responsible finance - which includes sustainable, responsible, faith-based and impact investing - needs now to enter into a new era of trust building and maintenance:

- It must have accountability and trust. We must mobilize innovations such as the blockchain, which allows the creation of an incorruptible and decentralised monitoring and participatory system which will generate efficiency and performance, innovation and trust;
- It must bring together the best practice from bottom up and top down partnerships on inclusive finance in service of the poor and excluded.

6.3.1. Building accountability and trust.

In the age of blockchain, incorruptible and decentralised monitoring and participatory system, it is important to explore how new technology can support inclusive and sustainable finance. The **CDIT Initiative**[2], launched at the Buenos Aires conference will generate efficiency improvements for existing initiatives and will help to rebuild trust in the financial industry.

Its valuable metadata which are expected to be independently managed as a public good. It can provide financial institutions the ability to make verifiable commitments to credibly demonstrate their sustainable & inclusive finance credentials to rebuild trust in the financial industry's collective contribution to sustainable and inclusive finance.

The CDIT initiative is trying to force a change to the financial architecture so that the financial industry sees more significant incentives to act positively towards sustainable development, to transition the shareholder focused model to a stakeholder model. If the CDIT initiative is successful, financial institutions will become more willing and able to meet the needs of the faith-based organisations because their business models will be more in line with the Agenda 2030 and the Paris Agreement, which necessitate a stakeholder focus.

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[2] Collaboration through decentralisation and new incentives to rebuild trust (CDIT)

A different but complementary initiative is the recently launched at the « Faith in Finance» conference in Zug, Switzerland is **FaithInves**t, a network, education, investment platform and advocacy organisation for faith-based organisations. Its contribution to sustainable and inclusive finance will be enhanced from the asset owner perspective to develop criteria aligned on SDGs, act as bridge maker between investors and development agencies, and act as a platform for projects.

If FaithInvest is successful, then it will force a change in the financial system by highlighting the importance of faith-based organizations as an important customer base for financial institutions. Although FaithInvest takes a distinct approach to the CDIT Initiative, the theories of change complement one another in a similar way that the strands of DNA complement on another as they join together in a double helix.

This complementary relationship can be enhanced by encouraging signatories to the Zug Guidelines, which have created a positive manifesto by many of the world's largest religions, to translate these principles into a «commitment stored on the blockchain».

6.3.2. The micro-to-macro, bottom up-top down

An informal model of commitment followed by actions works well already in many nonprofit-managed microfinance institutions such as those managed by faith organisations. These organisations have arranged their activities through a conscious process which helps to determine their intended impact and because of the personal connections within their governance structure, it is suitable for traditional structures of accountability to check that actions align with commitments.

Large financial institutions that dominate most of the financial system cannot work like this, and in order to re-create a Commitment-Action-Verification process that builds trust among their stakeholders they have to find an alternative arrangement. To date, many financial sector-led initiatives have relied on informal and voluntary structures.

These have not been successful at rebuilding trust when applied by large organisations because they rely on good faith by all participants across a diverse marketplace where incentives sometimes conflict with what is required. The CDIT Initiative proposes an alternative accountability model to replicate the best features of a community governance model. It uses a decentralized approach and the latest technology to enable organic creation of trust through transparency and accountability.

6.4. A Milennials alliance on inclusive and sustainable finance .

As noted in Nasdaq, July 31, 2018 by Darren Toh : '*A changing of the guard is taking place right now, as the Baby Boomer generation moves into retirement and Millennials form a growing proportion of total capital investments. This will be the largest generational wealth-transfer in recorded human history. One of the most striking trends observable in this transition is the Millennial's greater focus on verifiable and robust social and environmental governance practices by the companies they invest in. Millennials vote with their wallets and have overwhelmingly favored businesses with ethical and sustainable business practice frameworks*'.

The Buenos Aires Conference has been an opportunity to once again be reminded of the importance of a *Milennials alliance on inclusive and sustainable* finance (maybe starting in Latin America) with students of business schools, youth members of the Green Faith platform and similar organisations, and Scouts networks.

7. Conclusion.

Delivering inclusive and sustainable finance requires innovation:

- Financial innovation: A new pipeline of positive impact financial products (meeting return, liquidity, value criteria) across asset classes which can deliver the infrastructure, innovation and inclusion needed for sustainable development.

- Social innovation: Creation of effective mechanisms of stakeholder dialogue, engagement and decision-making. We have to focus on market creation not just market failures. Market creation goes together with new strategies to involve society which should be one of the objectives of 'inclusive finance'.

During this conference we have explored systemic proposals to accelerate the transformation of our economies and societies and address the effectiveness and timelines of action for SDG implementation to unlock additional financial flows from public and private sources for a purpose that the world has come together to support. It will require:

- Enhanced partnership between state- and non state champions of sustainability and an 2019 Inclusive and Sustainable Finance Summit
- Inclusive and sustainable financial business models
- Incorruptible and decentralised monitoring and participatory system with a partnership agreement on blockchain & inclusive and sustainable finance (CDIT)
- Recommendation to the *G20 Task Forces on Inclusive and Sustainable Finance*

Faced with the risks of a world where barriers are multiplying and social cohesion would be replaced by a world of "tribes" while environmental standards are under threat, we have with a new inclusive and sustainable business model for the finance sector. This new business model must provide the means to successfully implement the United Nations' 2030 Agenda, a positive vision for globalization at the service of humanity so that no one will be left behind and social cohesion be 'rebuilt'.

For this optimistic vision to become reality, *the investment industry needs to take a long, hard look at its culture. To thrive in the future, it needs to conquer the taboo it has put on morals and values, and overcome its fears of 'making the world a better place'[3].*

[3] *Rob Lake.*

Annex. List of existing platforms and initiatives.

1. Central Banks Network for Greening the Financial System
2. Financial Stability Board Task Force on Climate-related Financial Disclosures
3. G20 Task force on Inclusive Finance
4. G20 Task force on Sustainable Finance
5. World Bank
6. IMF
7. Inter-Development Banks
8. The Principles for Responsible Investment
9. UN agencies : UNDP, FAO, UNEP, ILO
10. UNEP - Financial Initiative and UNEP Inquiry
11. Global Impact Investing Network
12. Vatican Impact Investing Conference
13. Global Network on Banking on Values
14. Responsible Finance & Investment Foundation (RFI)
15. UN Global Compact
16. Global Reporting Initiative
17. Equator Principles
18. The Sustainable Stock Exchanges Initiative
19. Wall Street Network on Sustainable Finance
20. Finance for Tomorrow – Paris
21. Green Finance - London
22. The Sustainability Accounting Standards Board
23. The International Integrated Reporting Council
24. The Carbon Pricing Leadership Coalition
25. The Portfolio Decarbonisation Coalition
26. The Business and Sustainable Development Commission
27. The UN Commission on Blockchain for Sustainable Development
28. The International Development Finance Club
29. The One Planet Summit (Paris)
30. TBLI
31. The Alliance for Financial Inclusion
32. MENA Fintech Association
33. World Council of Credit Union
34. EU Technical Expert Group on Sustainable Finance[4]
35. EBRD
36. EIB
37. CDP
38. IDFC
39. The World Savings and Retail Banking Institute
40. European Association of Co-operative Banks / International Co-operative Alliance

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1. 23 European countries have signed a Declaration on the establishment of a European Blockchain Partnership.