2nd Rome Conference of Value Based Investors & SDGs
Background paper

The New Frontier.
Sustainable Finance and Care

Last year, Cardinal Turkson 2017 contribution (see excerpts below) - supported by leaders of other Churches - offered a 'vision' on the basis of which we decided to work on *sustainable finance and care*. This is the 'added value' of this conference 2018.

1. *The great innovation of Pope Francis in 'Laudato si' is centrality of the idea of care. It shows in the title, "Care for our common home". The terminology of stewardship comes up only twice in the encyclical whereas care comes up dozens of times. Care goes further than "stewardship": good stewards take responsibility and fulfil their obligations in terms of management and accountability. The challenge that we face today is to move from stewardship to care even when dealing with finance. Consciousness of the importance of caring should promote value-based investing.*

2. *Making finance responsible for the implementation of the 2030 Agenda of the United Nations: the Agenda 2030 is indeed a clear sign that the international community has come together and affirmed its commitment to eradicate poverty in all its forms and dimensions and to ensure that all children, women and men throughout the world will have the necessary conditions for living in true freedom and dignity.*

3. *There is an urgent need for all actors (the business sector, including large public and private financial organizations, as well as civil society) to exercise an effective, practical and constant will. Concrete steps and immediate measures are needed for preserving and improving the natural environment and for putting an end as quickly as possible to the phenomenon of social and economic exclusion, with its disastrous consequences. The rights of the most vulnerable categories must be forcefully defended by working to put an end to exclusion and by protecting the environment. It is of the utmost importance to invest, not only in businesses that reduce fossil fuels emissions, but also in social business that provide education, health and agriculture programmes. Indeed, it is not enough just to prevent the misuse and destruction of the environment; we need to do more to enable real men and women to escape from extreme poverty and allow them to become dignified agents of their own destiny.*

We will build the 2017 conversation on Cardinal Turkson messages 2017 & 2018 and explore how Financiers, Green Economy, Care experts and representatives of Religions can cooperate to 'Transform our World' by addressing Finance and the Care agenda in the light of Laudato si' so that, in line with SDG 1 – end poverty in all its forms everywhere – and SDG 10 – reduce inequality within and among countries – *'no one should be left behind'*. This conference aims to shape a two years programme of dialogue focused on :

1. **How to move from green finance to sustainable finance, integrating the 'care' dimension**
2. **No Poverty (SDG 1) and Reduced Inequalities (SDG 10).**
3. **From Shareholder to Stakeholder financial model**
4. **A partnership agreement to foster progress leveraging best practices and champions ?**

1. From green finance to sustainable finance, integrating the 'care' dimension.

Today there is still a tendency to confuse green finance and sustainable finance. Several consultations are in place at UN and EU levels (see annexes), which are important opportunities to advance a new vision of 'sustainable finance'. The 'care' dimension is largely missing.

Traditional finance focuses solely on financial return and risk. By contrast, sustainable finance considers financial, social and environmental returns in combination. Less than 1 % of financial institutions have adopted the most advanced sustainable finance model[1].

The definition of Sustainable finance is not consolidated. The Conference contributions should offer an input.

The best way to make progress is to identify and bring together champions and best practices addressing sustainable finance and care. This would be the objective of the two years programme to be explored in conclusion of the conference.

2. No Poverty (SDG 1) and Reduced Inequalities (SDG 10).

For the financial industry these two SDG's taken seriously would lead to a revolutionary change of macro-economic, financial and business models.

However, risk management and profit remain the main concerns of the mainstream financial industry. This industry should be much more concerned by the 'social and systemic risks' related to poverty and inequalities within and among countries and 'environmental damages' social impact as migration crisis do demonstrate .

One of the most dangerous obstacles on the way to the SDGs is the destruction of the 'social fabric' generated by the rise of poverty and growing inequalities within and among coutries. Due to macro-economic and financial policies in place since the 1980s, the growth of inequalities has led to behaviors that in turn lead to the destruction of solidarity, and - as we see in the United States - a selfishness that is to 'barricade' oneself physically and mentally. These policies and the behaviors they generate, coupled with the aging of the population, will lead to an increasing number of individuals, including Europeans, being at risk of poverty for at least the last third of their lives (50-80 years of age), which in turn will strengthen the populist movements.

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[1] http://bruegel.org/wp-content/uploads/2017/07/From-traditional-to-sustainable-finance_ONLINE.pdf

This while the impact of global limits will lead to increase public financial needs to ensure the resilience of human communities.

3. From Shareholder to stakeholder financial model.

Why it matters ? Today, what is in place is - with few exceptions as some cooperative banks - investors value chains without citizens , though they are also savers, buyers.

To move towards a 'stakeholder financial model' is extremely urgent as Financiers , Governments, Rating Agencies have on the agenda initiatives leading to standards , labeling, regulations, ratings initiatives of sustainable finance products, services and institutions.

On the agenda as emerging from the EU-hearing on sustainable finance :
Capital allocation in line with information, environment and systemic risks
Physical, liability and transition risks
Assessment of sustainable projects an issue for financiers. : need dialogue !...
Sustainable finance Taxonomy
Sustainable Finance labelling
Sustainable testing of financial legislation
A 'Sustainable infrastructure Europe' platform, inside or outside EIB
A role for European supervisory agencies on sustainability
Sustainability in ratings and relative benchmarking
Fiduciary duty, sustainable stewardship principles including ESG
Sustainable financial ecosystem with dedicated products
Standards : process and products
SRI label
Impact label
Regulation fostering sustainable finance appropriation
Mainstreaming sustainable finance

A very interesting essay provides a new framework for sustainable finance highlighting the move from the narrow shareholder model to the broader stakeholder model, aimed at long-term value creation for the wider community. *Dirk Schoenmaker argues that seeing the role of finance as one of allocating funding to productive investments in a narrow sense is no longer appropriate. (…) Moving from traditional to sustainable finance means having to counter attitudes that are embedded in the ways our economic systems are organised. Shifting away from them requires both new ways of operating but, importantly, new underlying principles that put sustainability centre stage to guide our thinking. It is important that we put this process in motion, and the earlier the better.*[2]

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[2] Maria Demertzis, Deputy Director of Bruegel
Brussels, July 2017

This essay develops guidelines for governing sustainable finance[3]. Read in parrticular sections starting pages 21, 39 and 60.

The purpose of the financial system should be to serve the real economy - a real economy that is now in transition to sustainable development. A shift towards sustainable finance is under way.

Mainstream finance is increasingly integrating the risks and opportunities inherent in the planetary boundaries into capital allocation, stewardship and market disclosure . At the same time, a growing number of impact investors are seeking to deliver social, environmental and financial returns linked to the SDG's[4].

The Global Alliance for Banking on Values is an independent network of banks using finance to deliver sustainable economic, social and environmental development[5].

4. **Towards a 'Partnership agreement' in a 'finance stakeholder model' ?**

The two years programme should contribute to demonstrate how to move from a shareholder model to a stakeholder model making use of best practices to be fostered. A new report Blueprint for Responsible Investment of the Principles for Responsible Investment is available. The aim over the next 10 years is to bring responsible investors together to work towards sustainable markets that contribute to a prosperous world for all. our Blueprint document

We will explore how this will be addressed in several sectors i.a. :

- **Agriculture**. How Value Based Investors - in partnership with other stakeholders - should address the 'New Frontier', the nexus food security & bio-economy, water & soil, forests, land use, climate and poverty ? How to implement the *principles for positive impact finance* in support to SDG1 (end poverty in all its forms everywhere), SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture) and other related SDGs as SDG 15 (protect, restore and promote sustainable use of terrestrial ecosystems … halt and reverse land degradation and halt biodiversity loss) as well as the three Rio conventions 'climate, biodiversity, desertification'?

  The Adaptation of African Agriculture Initiative[6] *aims to reduce the vulnerability of Africa and its agriculture to climate change. It promotes and fosters the implementation of specific projects to improve soil management, agricultural water control, climate risk management and capacity building & funding solutions. The initiative is an important response not only to climate change, but also to food*

[3] http://bruegel.org/wp-content/uploads/2017/07/From-traditional-to-sustainable-finance_ONLINE.pdf

[4] Yet without a strategic policy framework, these initiatives will not achieve scale in time. This is why the EU's High-Level Expert Group on Sustainable Finance is so timely and should be viewed not just as a process to consider tactical environmental, social and governance issues, but as a way of reconnecting finance to Europe's future trajectory.

[5] http://www.gabv.org/

[6] http://www.aaainitiative.org/initiative

insecurity. Its objective is to place the Adaptation of African Agriculture at the heart of climate debates and negotiations, and to attract a substantial share of climate funds. As for the solutions, it also aims to contribute to the roll-out of specific agricultural projects. The Adaptation of African Agriculture was identified as one of the priorities of the Moroccan presidency for COP22. To date, the initiative is actively supported by 25 African countries, the UNFCCC, and the FAO.

- **Oil & Gas.** We will listen to key findings of a research 2 degrees of separation, a company-level ranking of the oil & gas industry based on climate risk exposure. The report has been produced in partnership with PRI and a group of 5 mainstream investment firms. It is designed to help investor in their capital allocation process and help them engage with the company management boards on climate risk issues on a case by case basis.

- **Water**. There is an urgent need for investment in water infrastructure, technology, and (maintenance-) services in order to maintain water supply and water quality to industries and populations alike. This is the wake-up call for a significant increase in funding for the utilities and technology sectors. Additionally, there is also huge demand for a greater investment in stewardship practices within agriculture and corporates, and the development of a deep understanding of the societal impacts of water related activities within corporates, and the implementation of business strategies required to help mitigate and manage water security today. When determining investment opportunities, the real cost of water should include all externalities.

- **Megacities.** A pilot dialogue would focus on sustainable finance and the nexus climate-energy-wastes-circular economy-poverty for *planning and managing sustainable Mediterranean cities*[7] *By around 2050, the United Nations Human Settlements Programme predicts that the urban population will grow to around 170 million in the countries on the northern shore (140 million in 2005) and to over 300 million to the south and east (151 million in 2005). This fact generates serious challenges (…) Cities are critical for sustainable development in the Mediterranean, because they are engines of economic development, innovation and creativity: the climate friendly cities agenda is an example of the potential of urban areas to contribute to sustainability.*

We will address the role of green financial centers and national development banks

- **Mobilizing green financial centers** to foster sustainable development on the African continent. How green finance market places are developing ambitious programmes towards the implementation of Positive Impact Principles with a presentation of the initiatives of Casablanca Finance for Africa.
- **The role of National Development Banks**, in view of the G20 in Argentina. In the context of growing risks for citizens and the society as a whole the available

[7] Mediterranean Strategy for Sustainable Development. UNEP-MAP.

financial resources will have to be channeled imperatively towards the implementation of SDG's and this in a highly visible manner. The State will need to strengthen its hold, This shift in thinking is driven on the one hand by the magnitude of the challenges - from climate change to lack of access to education, health, and sustainable infrastructure - and on the other hand by the realities of the global economy, where yields are low.

We need to scale up, accelerate the transition and move from stewardship to care.

The concept of Care could be (further) considered for action by focussing on the major priority issues in a perspective where the greatest number of people in poverty and exclusion are supported to achieve long lasting and sustainable solutions to the problems they encounter in their daily lives. The UN agenda would provide the guidance to (further) develop initiatives of this nature, includingthe long standing work by UNEP in its Global Environment Outlook (GEO) work on assessmentand monitoring of environmental issues with a geographical breakdown, e.g. the GEO Africa.The EU research project EJOLT and the analysis of damages in the context of the analysis of"Natural Capital at Risk" 2013 further inform about the issues at stake, to name but these sources of information.

"Differentiation" will have to apply to framing the agenda in specific cases. As observed and developed for the Rome-project phase 1 last year given concepts apply differently to different groups of countries. In the case of Ghana the existing production- and consumption patterns have a totally different meaning and perspective in Ghana as compared to e.g. an EU-member state, notably in terms of environmental footprint. The term "consumption" as well given the prevalence of poverty in Ghana and the same could be observed as far as health issues in relation to food are concerned: food security is of high relevance to a country like Ghana whereas the concept would be much less relevant in an EU-member state where food related issues count heavily in the environmental footprint per capita and in relation to health issues such as obesity. Differentiation would also apply to the actors in relation to a given SDG-agenda for action such as the Rome-project phase 2: in the case of Ghana the starting point would have to be to observe the actual situation in Ghana in relation to the SDG-agenda and to initiatives undertaken and to be undertaken in the framework of the agenda.

We need more dialogue between three galaxies of experts related respectively to finance, green economy, care.

- As the recent Italian National Dialogue on Sustainable Finance and many other initiatives have demonstrated there is a growing awareness and increased actions by financial institutions across the banking, capital markets, institutional investment and insurance sectors.

We need to mobilise civil society. Citizens will have to use new means of action and influence markets to lead to socially and ecologically responsible investments.

- GCCM will share its Catholic Divest-Invest work.
- CIDSE will make an input on the recent work done on Laudato Si' principles and ambitious climate action

Will also join the conference Focsiv which just carried out a national conference in Italy on Energy Transition and Sustainable Finance with the participation of important finance instiutions and the Italian Episcopal Conference.

The Trust Gap.

Value Based Investors do claim that they are not '*rewarded by the market'* For Financiers this huge gap is endangering the good work they try to do and their future as niche market within mainstream financial institutions. To make more progress we would need trust.

At the same time, the lack of trust deserved by the Financial Industry is a key issue. *Short-termism, lack of transparency, interconnection between greed, fear and instant gratification*[8] are a permanent financial institution 'disease'. Many managers of institutions *members of PRI are overpaid. if institutional investors can't get the basics like pay and performance (5 yr return on capital) working effectively thorugh their corporate governance functions, do we really stand much of a hope in addressing the more critical issues like metrics and incentive designs align with a clean energy transformation over the next 20 years ? can we really say the listed institutional investors (see note) have lived up to their "fiduciary duty" in managing other peoples money when they have approved 15 billion in excessive exec pay and wasted compensation? is this truly responsible investment?*[9]

To which should be added that some institutions active in promoting their Sustainable Finance services and products have other branches in the same institution lobbying against sustainable innovative mechanisms as the European Union financial transaction tax in the service of climate change and international solidarity.

- In Europe.

The opposition and lobbying of European financial institutions against the European Union financial transaction tax which should be enforced and its revenues allocated in accordance with the SDG's is also a source of concern. According to an estimate by the European Commission, this levy of 0.1% on trade in shares and 0.01% on derivatives could yield between 20 and 22 billion euros per year to the ten EU countries , including France and Germany, linked in the framework of "enhanced cooperation". Launched in the aftermath of the 2008 financial crisis, which was taken up by the European Commission in 2011, the "Tobin tax" stumbles on the issue of revenue allocation, but its principle is now validated by partner states. At the European Council of 23 June, President Emmanuel Macron confirmed that a Tobin tax would hardly come to an end

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[8] Flavia Micilotta. Eurosif Executive Director.

[9] *$ 15 billion in excessive exec pay was 70 % + approved by tiaa, norges, omers, cppib, christian brothers, north carolina state treasuser , ontario teachers, australiansuper, goldman sachs, blackrock, fidelity , vanguard, wellington, state street , ubs global asset , henderson, axa investment, allianz , schroders, hermes, legal & general , deutsche asset , etc and further approved at a 60 % + level by calpers, calstrs, new york common, robeco sam, etc. is this truly responsible investment? are not most of the above signatories of UNPRI?*
Mark Van Clieaf. Organizational Capital Partners

before the Brexit negotiations had ended. Deprived of this new financial tool, the imperative of "*solidarity with the most vulnerable, in the North as in the South*", repeated by Minister Nicolas Hulot on July 6, risks remaining a dead letter. All the more so as uncertainty also hangs over the maintenance of the French FTT, in force since 2012. A report by the Court of Auditors notes a decline in its revenues, rose from 1,06 billion euros in 2015 to 947 million In 2016.

- In the USA.

The Financial industry behavior in the US today should be a major source of reflection. Since the election of Donald Trump, the new US administration has only hastened to revisit the Dodd-Frank law with the financial industry support. This text voted in 2010 is accused of having gone too far in its objective of avoiding a disaster comparable to that of 2008, by excessively bridging the banks and thus the economy of the United States, in particular by restricting credit.

What a sustainable future would look like? AVIVA *thinks it looks something like this: every individual will be aware of the corporate activity their money funds — and how these companies perform on sustainability issues. A set of free, publicly-available corporate-sustainability benchmarks will rank companies on their sustainability performance and their individual contributions to the Sustainable Development Goals. These benchmarks will provide financial institutions and other stakeholders with the critical information they can use in their engagement with companies on sustainability issues. This model will also encourage a race to the top, driving companies to out-perform each other on sustainability criteria*. Aviva is contributing to the establishment of the World Benchmarking Alliance. Learn more about sustainability benchmarks here. CEO Mark Wilson said; *"It is enlightened self-interest that determines why business will act sustainably. If business isn't sustainable then society is at risk. And if society isn't sustainable then business is at risk."*

To help to move from niche market to mainstream market as well as to create a *virtuous circle* by which financial products and services are better aligning with the 'common good', would a '***Partnership Agreement'*** between Financiers and other state and non state actors be of help in a digital era as today the monitoring, rewarding leverages available to the value chain and citizens has greatly enlarged.

Such **Partnership Agreement** between organisations to develop multi-stakeholders dialogues (involving the three galaxies of finance, green economy and care) and initiatives would aim to foster progress leveraging sustainable finance best practices and champions to move from a shareholder model to a stakeholder model and harness capital for the common good, sustainable finance and care ?

A **blockchain Sustainable Finance, SDG's and Climate would be part of the partnership agreement**. This issues will not be addressed during the conference itself but is considered as one of the next steps. A dialogue should be engaged focused on the engineering of a *Blockchain Sustainable Finance, Climate & SDGs* mathematical algorithms, cold but incorruptible tools, mathematically proving trust, already used by the banking sector. It will aim to (i) rebuild trust, (ii) ensure more justice, (iii) scale up and (iv) ensure that sustainable finance includes the care agenda as well as (v) moves from niche market to mainstream market. Blockchain is well known in the world of finance. Thus, for example :

- **The Stockholm Fintech Hub**, with support from the Swedish Government, has established a Green Digital Finance Centre and is working on blockchain initiatives in relation with Green bonds, Green Foreign Direct Investments, Aid pipeline, overseas SME investments.
- **The Green Digital Finance Alliance** founded to harness digital technologies to catalyse financing that addresses global environmental challenges.[10]

Could such '*partnership agreement*' be negotiated, implemented and monitored under the patronage of Globe International Members, (as legislators should have the means to reward or punish) and maybe Religious Institutions or NGOs and Foundations (as Christian Churches, Islamic Foundations, etc) ?

Annex 1. UN

UNEP inquiry has produced a background paper as a contribution to the G20 Green Finance Study Group (GFSG) work in 2017. It highlights the progress made on green finance across the G20 members over the last 12 months, referencing the seven broad areas that were put forward in the 2016 Green Finance Synthesis Report to scale up green finance. The paper signals a very positive picture of progress made at national and international level, as well as in the financial markets. A set of interactive maps showing details on the progress made complements the report and is available here.

The UN ENV (UNEP) and the World Bank project "Roadmap Sustainable Financial System" launched last April will be presented to the Autumn session WB and IMF, in October. UN Environment and the World Bank Group view the over-arching objective of asound financial system as being to provide finance that meets the long-term needs ofan inclusive, environmentally sustainable economy. While there is no single blueprint or unique pathway for creating such a "sustainable financial system", it is possible todescribe its many characteristics and progress towards it.

- *From a Government and Regulatory perspective*, characteristics of a sustainable financial system include : (i) Policy Alignment : ensuring international, national, regional and subnational financial regulators are aligned with long-term policy goals; (ii) Financial Stability: ensuring financial system resilience in the face of environmental and climaterelated pressures and associated policy measures; and (iii) Public Finance: ensuring the effective use of scarce public finance to catalyze green finance.
- *From a Private Financial Market perspective*, these also include: (iv) Principles, Cultures and Beliefs : ensuring that the financial system is sensitized, responsive to and rewarded for environmental stewardship; (v) Market Integrity: ensuring effective transparency and accountability to underpin financial sector behavior; (vi) Innovation and Dynamism: ensuring innovative financing instruments and business models are aligned to the financial system's purpose; (vii) Long-term Financing: ensuring financing decisions take longer-term risks and opportunities

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https://www.greendigitalfinance.org/

associated with the environment into account; and (viii) Information and Capabilities: ensuring the effective flow and use of market-relevantenvironmental information.

UNEP Finance Initiative's organises several regional roundtables.Ahead of Argentina's G20 presidency in 2018, the first Latin America and the Caribbean Roundtable will take place in Buenos Aires on 5-6 September 2017. Sustainable finance will be an important discussion topic for emerging economies as they try to find ways to unlock private capital to fulfill national development priorities and achieve sustainable development goals. Argentina's approach to sustainable finance will be discussed as one of the key plenary sessions during the Roundtable. To find out more, please visit the Latin America Roundtable event page here.

Annex 2. European Union

At the end of 2016, the European Commission established a High-Level Expert Group on Sustainable Finance to help develop a comprehensive, overarching EU strategy on sustainable finance. After six months of intensive work, the Expert Group has summarised first results and policy options in its Interim Report which was published on 13th of July 2017.

Read it here. This interim report however doesn't cover issues to be part of the next step : Governance of firms and financial institutions ; Sustainability in ratings ; Involvement of society ; Social dimensions ; Stock exchange and green financial centres

In March 2017, the World Bank issued SDG-linked bonds—the first bonds that link the return investors receive to the stock performance of 50 companies that are listed in the *Solactive Sustainable Development Goals World Index* because they support the SDGs in their operations. The bonds raised US$163 million from investors in France and Italy.

Annex 3. Islamic Finance.

The Islamic Corporation for the Development of the Private Sector (ICD) and Saturna Capital have launched a new Global Sustainable Fund aimed at aligning Shariah compliance and ESG screening. The fund, which launches with $36 million in seed capital, will be initially sold only in Malaysia, although it expects to seek international investors through an ASEAN fund passport. *The Economist* magazine recently described Africa as Islamic finance's 'new frontier' because of its large Muslim population, early efforts to leverage sovereign sukuk issuance for infrastructure projects, and efforts to encourage greater financial inclusion. From a responsible finance perspective, however, this misses perhaps the most promising development: an emerging effort using Islamic finance to build national capacity in renewable energy for rural electrification.