

Links in the chain of sustainable finance:

Accelerating private investments for the SDGs, including climate action

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Preface

Mogens Lykketoft, President of the 70th U.N. General Assembly

The new Sustainable Development Goals (SDGs) will require a rethink of how our societies and economies are organized, how we can eradicate poverty and how we can adopt sustainable patterns of production and consumption. SDG 17 and the Addis Ababa Action Agenda provide an ambitious framework on the financial and non-financial means necessary to implement the SDGs. The Paris Agreement, for its part, presents a more detailed plan on how to shift from a fossil based economy to one that is low-carbon and climate resilient. Meeting these commitments and implementing both the SDGs and the Climate Agreement in a synergetic way is a big task. It requires active analysis, advocacy, engagement and initiative of all stakeholders at all levels. Rough estimates are that \$5–7 trillion of incremental annual investment will be needed to finance the SDGs. This requires donors to keep their promises, it requires better and more efficient taxation and it requires policy frameworks to make private sustainable investments the best investments.

This policy brief addresses the last part of the equation. The whole set-up of the financial sector must be adjusted so as to contribute to SDG implementation. Capital flows need to be redirected towards SDG priorities and away from areas that accelerate climate change, deplete natural and human capital, and exacerbate social and income inequalities. This corresponds partly with experience from the finance sector where some stakeholders have started to rethink their established practice, due to normative reasons and because of risks, instability or the need for more long term investment. But how to turn this new thinking from the exception to the norm?

This report is a contribution to answering this question and to the bigger debate on how we accelerate the transition to a more sustainable future. My sincere thanks go to Homi Kharas and John McArthur, who took up my invitation to provide an independent assessment of these questions and produced this valuable policy brief. I also thank the group of finance experts from within and outside the U.N. who took the time to draw from their extensive experience and ideas to provide feedback on earlier drafts. This brief will provide a useful contribution to upcoming policy discussions.

Sustainable finance: Imagining realignment

The ambitious goals of Agenda 2030 and the Paris Agreement on climate change have not yet been matched by an equally ambitious financing plan that will get the right resources to the right places at the right time. Despite articulation of a global financing framework in the U.N.'s 2015 Addis Ababa Action Agenda, both public and private financing for sustainable development are underperforming relative to expectations and needs.

Public resources command attention because they can be programmed by government commitments with some degree of confidence on a multi-year basis. Publicly-funded investments can also incorporate non-market environmental, social and governance issues into project design, selection and implementation. It is certainly the case that many countries still need to mobilize more domestic public resources for the SDGs and climate action. There are, however, well-understood limits to public financing, including pressures on official development assistance (ODA) due to diversion of resources to humanitarian relief and to economic strains in major donor economies, many of which have roots in the most recent global financial crisis.

Private finance, the focus of this policy brief, is also indispensable for sustainable development. It is more plentiful than public finance, but operates independently of intergovernmental processes and responds instead to real-time market signals, guided by the need to maximize expected return within existing policy and regulatory frameworks. Mobilizing and orienting private finance frames one of the most important SDG challenges: shaping the risks, returns, and other incentives facing market actors to ensure private financing supports achievement of the Goals. This is the challenge of “sustainable finance,” a term we use to define financial flows—public or private—that are allocated in a way that simultaneously promotes sustainable development, including its economic, social and environmental imperatives. Sustainable finance can be induced through norms and standards, institutional processes, market forces, market regulations, policy incentives, benchmarking, peer pressure, citizen advocacy, and other means.

Many important activities are already underway to help promote sustainable finance around the world. For example:

- The **Principles for Responsible Investment** advance environmental, social, and governance (ESG) standards for investment processes across 1,500 corporate signatories with more than \$60 trillion in assets under management.
- The **U.N. Global Compact** has been helping companies, investors and stock exchanges to integrate ESG issues into their business practices, including through the launch of the Global Compact 100 index of responsible companies.

- The **G-20** welcomed, at its 2015 leaders' summit in China, options put forward by its Green Finance Study Group to develop voluntary proposals for scaling up green finance.
- The **Financial Stability Board's Task Force on Climate-related Financial Disclosures**, chaired by Michael Bloomberg, is developing disclosure guidelines to provide a common reference point for companies, investors, lenders, insurers and other stakeholders.
- The **Global Reporting Initiative** promotes sustainability disclosures for companies around the world.
- The **Equator Principles** offer an approach for more than 80 financial institutions to manage and assess risk in project finance, corporate lending, and advisory services.
- The **Sustainable Stock Exchanges** initiative offers a peer learning platform for 48 exchanges from 52 countries to advance ESG reporting among listed companies.
- The **UNEP Finance Initiative** has partnered with the private sector since 1992; more recently the **Inquiry into the Design of a Sustainable Financial System** has mapped actions for accelerating the financial system's transition to support a green economy.
- A **European Union Directive on the Disclosure of Non-Financial and Diversity Information** requires ESG disclosures by large companies and groups, beginning in 2017.
- The **Sustainability Accounting Standards Board** has issued provisional sustainability accounting standards for 79 industries, aiming to inform the future work of the U.S. Securities and Exchange Commission.
- The **International Integrated Reporting Council** is testing a framework to align capital allocation and corporate activities with broader objectives of financial stability and sustainable development.
- **CDP** (formerly Carbon Disclosure Project) works with more than 800 investors to help identify environmental risks embedded in their portfolios.
- The **Carbon Pricing Leadership Coalition** convenes more than 100 major companies and other stakeholders to advance global carbon pricing efforts.
- The **Portfolio Decarbonization Coalition** convenes 25 major investors overseeing the gradual decarbonization of \$600 billion in assets under management.

- The **Business and Sustainable Development Commission** has been launched with leadership from companies like Alibaba, Merck, Safaricom, Temasek, and Unilever to identify a business case for the SDGs.
- **Focusing Capital on the Long Term** has been launched to discourage market short-termism and instead encourage behaviors focused on longer-term economic progress across generations.
- The **International Development Finance Club** has established a set of guidelines for tracking the volume of climate mitigation and adaptation activities mobilized by long-term national and international financial institutions.
- The **International Standards Organization** has developed guidance on measuring an organization's contribution to sustainable development (ISO 26000) and has drafted guidance for public consultation on measuring the sustainability of corporate procurement (ISO 20400).

These initiatives are contributing to progress. For instance, green bonds were first launched only a few years ago and are already likely to exceed \$75 billion in 2016.¹ Impact investments topped \$15 billion in 2015.² Individual firms like the insurer Aviva have issued calls for action to mobilize finance for the SDGs, based on detailed analysis.³ The range of activities underway suggests that markets may be close to a tipping point. But it also highlights the scattered nature of individual initiatives and the long path to creating new financing norms. There is a long way to go to scale up sustainable finance to desired levels.

One central problem is the ambiguity of current systems. Consider, for example, green finance. The core idea is to create reporting standards that ensure funds will be invested in low-carbon emission activities. But it's not yet clear exactly how "green" should be defined. Equally importantly, how do environmental standards relate to other economic and social sustainability imperatives? What if, for example, a green bond finances a low-carbon energy project that leaves toxins in local ecosystems or uses inputs produced by indentured child labor?

It is intuitive to think of "sustainable finance" as financing that is consistent with achieving all 17 SDGs. Because all governments have endorsed the SDGs, there is a *prima facie* presumption that public finance

¹ "Green bond issuances to top \$75bn in 2016: Moody's." *The Economic Times*. 28 July 2016. <http://economictimes.indiatimes.com/markets/stocks/news/green-bond-issuances-to-top-75-bn-in-2016-moodys/articleshow/53430340.cms>.

² Global Impact Investment Network Annual Survey 2016. https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf.

³ Aviva 2015, "Mobilizing Finance to Support the Global Goals for Sustainable Development: Aviva's Calls to Action." http://www.aviva.com/media/upload/Mobilising_Finance_Avivas_Calls_to_Action_2.pdf.

should be “sustainable,” but in practice this may not always be the case. An understanding of whether public or private finance is “sustainable” requires a multi-dimensional set of metrics that can help roll out the early successes of climate finance across all SDG-relevant sectors. In other words, if each SDG were represented by its own color, then green finance needs to be expanded to include all elements of the rainbow—capturing priorities (and addressing tradeoffs) across issues ranging from sustainable food systems, to healthy living, to gender equality in the workforce, to sustainable marine life in the oceans. Investors, companies, policymakers and civil society all require a common approach to quantifiable operational standards that align with the priorities.

From seeds to scale

The notion of sustainable finance has growing momentum. Under SDG target 12.6, U.N. Member States agreed to “encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.” This builds on the Addis Ababa agreement on financing for sustainable development, where Member States agreed to pursue policies and “regulations that promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators, and that reduce excess volatility.”⁴

Many established players, entrepreneurs, and public-private alliances are all working hard to generate new investment vehicles. But they are often doing so in the absence of adequate policy incentives and therefore practical tools for translating this commitment into actual projects on the ground.

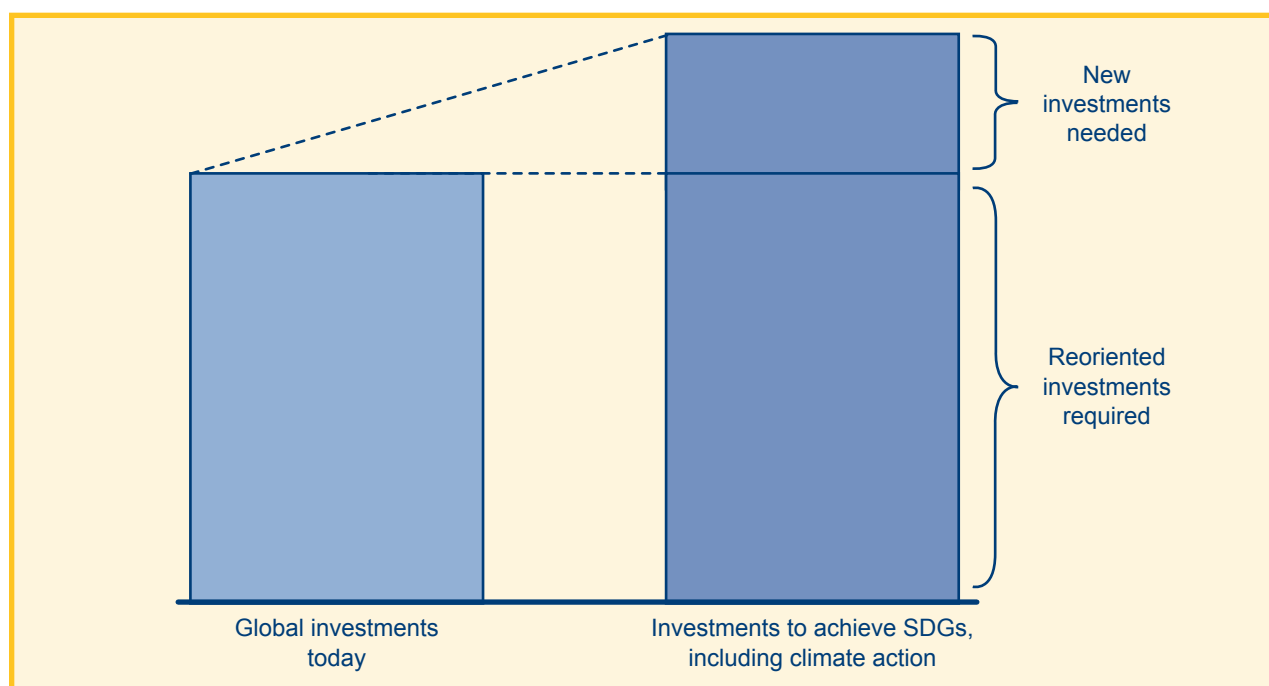
For the SDGs, rough estimates suggest that perhaps \$5-7 trillion dollars of annual investment is required across sectors and industries, the largest share of which is for low-carbon energy infrastructure, both generation and distribution.⁵ At first glance, this number might appear out of reach. But context is crucial, since \$5–7 trillion represents only perhaps 7 to 10 percent of global GDP, and 25 to 40 percent of annual global investment. Investments of the approximate order of magnitude are already taking place. But they are being undertaken without deliberate intent to promote SDG or climate action objectives, and in some cases may even be detrimental to achieving these goals.

As indicated in Figure 1, sustainable finance is not only about *increasing* investments through new funding streams. It is also about finding ways to *reorient* the world’s existing financing streams to be consistent with multiple SDGs at once, i.e., to advance some Goals without detracting from others. The

⁴ U.N. Addis Ababa Action Agreement, 2015, paragraph 38. Governments also committed, in paragraph 37, to “promote sustainable corporate practices, including integrating environmental, social and governance factors into company reporting as appropriate.” This echoes elements of paragraph 47 of the U.N.’s 2012 Rio+20 Outcome document, “The Future We Want.”

⁵ UNCTAD, 2014, *World investment Report 2014—Investing in the SDGs: An Action Plan*.

Figure 1: Twin tracks—Increasing and reorienting investments for the SDGs



relative importance of these two tracks will vary across countries. For example, in many low-income developing countries, both the volume and nature of public finance—domestic and international—must be augmented to align with the SDGs. In middle-income countries, a re-orientation of private finance might be more important. In many countries, getting enough sustainable finance will require overcoming persistent skepticism that private finance will flow in sufficient quantity and with a sufficiently broad approach to contribute significantly to sustainable development.⁶

Public finance can play an important role in jump-starting SDG investments in countries facing obstacles in accessing private finance. Governments need not act alone. They can leverage private capital, mobilize additional investments through co-financing of specific projects, and catalyze still further private investments through improved incentives, including via blended finance and greater use of public risk-sharing financial instruments. Multilateral development banks are particularly well suited to do more in this regard, but in some cases require additional shareholder support to expand their engagement to a level where they can make a material contribution to achievement of the SDGs.

In many instances, both increasing and re-orienting finance can happen without additional action from the public sector, once there are sufficient incentives for enough sustainable private finance to flow into SDG investments. To be clear, this second task of reorienting private finance does not imply “directing”

⁶ See, for example, UNCTAD’s 2015 report *UNCTAD: Investing in Sustainable Development Goals – Action Plan for Private Investments in SDGs*. http://unctad.org/en/PublicationsLibrary/osg2015d3_en.pdf.

markets to do things inconsistent with long-term profit maximization. Instead, it means identifying instruments and incentives that help private investors consider a broader array of risks and opportunities that better reflect sustainable development priorities.

On the positive side, the “new normal” of low real interest rates in global capital markets offers an opportunity to use private capital for sustainable investments to a far greater degree than was previously thought possible. On the other hand, data suggests the volume of private provision of infrastructure in developing countries has flattened.⁷ Banks, especially European banks, have been withdrawing from cross-border project finance due to new banking regulations, with Africa being particularly affected. Yet even if banks take on new approaches to project origination, all other actors in financial market ecosystems still need to recognize and act on the new opportunities, challenges, and risks.

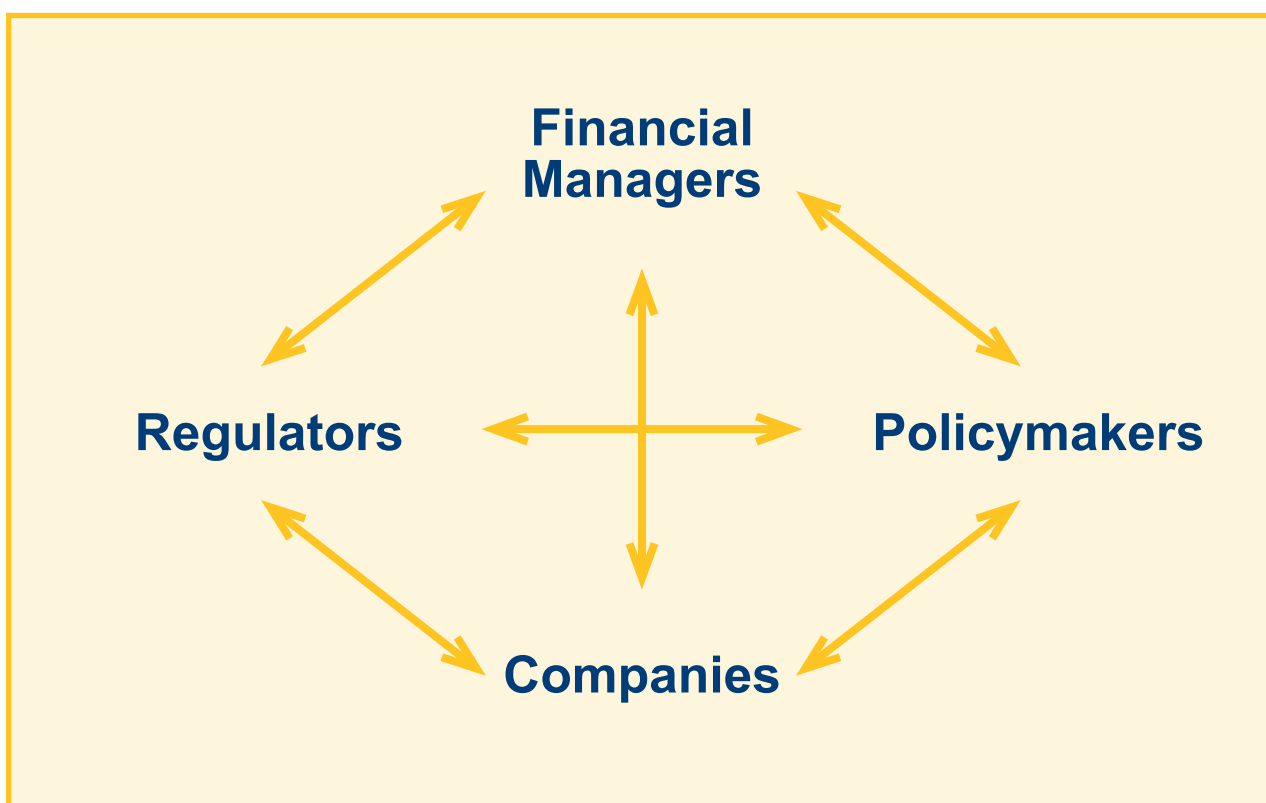
⁷ World Bank, PPIAF Database, <http://ppi.worldbank.org/~media/GIAWB/PPI/Documents/Global-Notes/Global2015-PPI-Update.pdf>

Links in a chain: Four critical types of actors

For sustainable finance to take hold throughout the global financing system, a “links in the chain” approach is required, for which many actors share responsibility. No single step will be adequate for success. Major actions need to address multiple problems at once. First, there needs to be a shift in mind-set from compliance to performance. Market actors need to internalize the SDGs as opportunities to compete and win through core product lines rather than as straightjackets of corporate responsibility. Second, markets need to transition practices from the silos of short-term financial profit to the multi-dimensional challenge of long-term sustainable finance, in a manner that addresses the full range of SDGs. Third, there needs to be a shift from incremental investments and instruments to systemic improvements of worldwide market-based finance. The entire global economy needs to be financed through SDG-consistent approaches.

Figure 2 presents the four interconnected categories of actors who will all be essential for sustainable finance success: financial managers; government policymakers; market regulators; and companies operating in the real economy. Below we briefly describe how each actor has unique responsibilities.

Figure 2: Ecosystem of critical actors responsible for achieving sustainable finance at scale



1. Responsible financial managers

Financial managers deploy investments across an ecosystem of actors and instruments.⁸ Private capital can be channeled toward SDG and climate investments through bond markets, public equity markets, bank lending, or direct investments in projects and firms. Historically, many of the relevant infrastructure-type investments consistent with the SDGs would have been made through bank lending, but this has been curtailed post-financial crisis, as mentioned above. As a result, attention has shifted toward identifying how other large pools of capital, including institutional investors like insurance companies, sovereign wealth funds and public pension funds, could help to mobilize the necessary financing.

Institutional investors are often the top of the investment chain, since they represent such large pools of assets, and their decision rules and portfolio allocation policies can have such major sway across investees, ranging from publicly traded companies to major projects in which they might share a direct ownership stake. Many underlying asset owners, such as individuals saving for their pensions, are focused on optimizing returns over quarter centuries or more. But asset managers may have incentives that are focused on optimizing returns annually or over the three months of a financial quarter. Their pay and bonuses, transparency of administrative costs, fiduciary duties to clients, board appointments and other instruments can be deployed to lengthen their time horizons.⁹

2. Responsible government policymakers

Investors aim to optimize profit based on the conditions of the world around them, especially the signals provided by market prices. Many of these conditions are affected by government policies. But governments do not yet have the policies, frameworks and projects in place to drive sustainable investments at the scale required. Market prices often do not reflect the full economic cost of environmental and social externalities. The difference between market and economic prices is well-recognized—it can be narrowed through tax-subsidy measures, regulations, and planning. Thus, a major priority is for governments to help “get prices right”—that is, to ensure that prices are consistent with SDG and climate goal achievement. Governments need to provide the right incentive frameworks so that sustainable private finance is at least as profitable as its alternatives.

Governments can also make and shape markets through their procurement activities. They are major purchasers of SDG-related goods and services. Incorporating sustainable development metrics into value-for-money assessments of public procurement can be a powerful signal of government commit-

⁸ We use the term “financial manager” very broadly here to imply managers at major financial institutions.

⁹ See for example, “The Kay Review of U.K. equity markets and long-term decision-making,” 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf

ment to sustainable development and a major opportunity to jump-start new markets for sustainable production.

In the climate realm, countries are using different approaches to the problem of how to encourage firms to reduce carbon emissions. These include carbon pricing, cap-and-trade, feed-in tariffs, and other regulatory instruments. While progress may be slow, the issues are well understood. Consequently, many multilateral development banks, for example, have implicit carbon prices that they use for determining least-cost investments. They should harmonize these, make them transparent, and review processes of consultation in setting the prices.

There is less understanding that the cost of capital is a key “price” when choosing an appropriate technology. Renewable energy technologies have high up-front costs and low operating costs compared to fossil fuel-based technologies. Infrastructure projects in many developing countries might still face double-digit market interest rates on their debt. At these rates, renewable technologies may not be least-cost. And, if they are adopted, the energy produced may not be affordable for small enterprises and low-income households. For these reasons, along with the need for reliable base load power, many countries’ installed power generation capacity growth is still coal-fired when left to commercial forces. Decisions on the role of government, therefore, cannot be pre-determined for all countries on an ideological basis as to whether public or private financing is preferable, but must also reflect the realities of prices, including the cost of capital, on the ground.

3. Responsible regulators

As a distinct branch of public responsibility, regulators define the administrative rules by which market actors operate, compete and report on their activities. Many financial sector regulators are justly focused on managing risk as a critical aspect of maintaining a stable financial system. But in traditional finance, low risk is also associated with short-term lending, sovereign lending, or lending in mature markets, where strong rule of law provides predictability around contracts and dispute resolution. Many SDG-focused investments will need to take place over long-term horizons, and many in countries where commercial laws are so far less established.

Regulation is one way of dealing with the “tragedy of the horizon”—the short-termism that bedevils much financial and corporate decision-making. But to use this instrument effectively, the mandates of regulators might need to be changed to increase their time horizons.¹⁰ Using explicit regulation would represent a departure from the voluntary codes of conduct that many banks currently use to address sustainability issues. Meanwhile, many developing countries are taking the lead in pursuing mandatory standards and goals.

¹⁰ Mark Carney, “Breaking the Tragedy of the Horizon – climate change and financial stability.” Speech to Lloyd’s of London, 29 September 2015 <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx>

An estimated 64 out of 71 countries studied by KPMG have some form of sustainability reporting instruments.¹¹ In the United States, the Department of Labor's October 2015 guidance on the Employee Retirement Income Security Act (ERISA) clarified that relevant pension fund fiduciaries are allowed to engage in economically targeted (rather than just financially-targeted) investing. With more metrics available for evaluating investments, it is possible to identify products with both financial returns and social returns.

But until now, most SDG-relevant regulations remain voluntary rather than mandatory, and regulators have not paid adequate attention to the full range of issues relevant to sustainable finance. Accounting standards need to be updated, modernized, and made consistent with the SDGs. A globally coherent approach to such standards would make an enormous contribution.

There can be a temptation for individual governments to try to attract investment through loosening standards or regulations, or by offering a different package of carrots-and-sticks to change business incentives. There is already ample evidence of companies' "base erosion" and "profit shifting" to low tax jurisdictions, which undermine governments' ability to finance needed public investments across the world. A similar race-to-the-bottom on regulatory issues would inhibit efforts to ensure business investments contribute to the SDGs.

In considering the climate-related issues faced by financial institutions, regulators need to ensure investors rigorously assess three forms of risk: (i) direct physical risk from extreme events (storms, floods and droughts) and long-term events (sea-level changes); (ii) liability (and reputation) risk in the future, especially for large carbon emitters, including through the Warsaw International Mechanism for Loss and Damage; and (iii) transition risk from a process of swift asset price revaluations as regulations, policies and technologies shift. These risks are complex to estimate and model because the world is changing so fast.¹²

Regulators also need to pay special attention to issues faced by insurance firms, given the importance of disaster risk and the need to build incentives for investing in resilience to minimize losses. As ever, regulators need to strike a balance between priorities. For example, new measures like the EU's Solvency II regulations for insurance companies' minimum capital requirements may help to mitigate near-term institutional risk. But they may also increase long-term risk if the same regulations reduce the willingness of insurers to allocate some of their \$29 trillion under management to sustainable infrastructure projects that offer promising returns and help mitigate climate change.

¹¹ KPMG, GRI, UNEP and CCGA, *Carrots and Sticks: Global trends in sustainability reporting regulation and policy*. <https://home.kpmg.com/content/dam/kpmg/pdf/2016/05/carrots-and-sticks-may-2016.pdf>

¹² See the Financial Stability Board's Task-Force on Climate Related Financial Disclosures, <https://www.fsb-tcfd.org/>

4. Responsible companies

The ultimate front-line for SDG investments is at the level of companies operating in the real economy. In many cases, entrepreneurial business leaders will identify their own ways of contributing to the SDGs. But the larger issue is to align business executives' general market incentives with long-term profitability and the achievement of the SDGs. Firms, especially mid-sized and large firms, need to have clear metrics for understanding and reporting on the impact of their operations, so that owners and investors can transparently track performance and hold management accountable.

Fortunately, there has been an upsurge in ESG reporting and disclosure in recent years. One assessment suggests that nearly 2,000 companies report climate change information to the Carbon Disclosure Project and around 10,000 companies report ESG data using the Global Reporting Initiative's framework. However, companies' information is typically not prepared in a way that permits easy access or comparisons across firms, making it difficult to move from reporting to action. Benchmarking is crucial for informing decisions by company managers, boards, and investors.

The challenge is to make sure regulations and reports are smart to the practicalities of each industry. For example, the Sustainability Accounting Standards Board (SASB) estimates that greenhouse gas emissions are likely to be a material disclosure requirement in only 23 of the 79 industries it has assessed, so it would be unduly burdensome to require the same disclosures within the other 56 industries.¹³

There is also a growing understanding that fiduciary responsibilities do not *exclude* consideration of ESG issues. At the most basic level, ESG issues can have material financial impacts that fiduciaries should expect to see discussed by management. More broadly, non-financial material issues can also have very large reputational impact that, in turn, can lead to financial gains or losses. Casting the net wider still, for example to health and environmental systems, the collective ESG footprint of corporations can have economy-wide or sector-wide effects, impacting the potential underlying growth rate of each business. Since fiduciaries are commonly judged on ESG process, as well as financial outcomes, they must demonstrate a good faith due diligence.¹⁴

Importantly, there is growing evidence that management concern for ESG issues does not automatically entail a trade-off with financial profits—quite the opposite. One recent study of more than 2,300 U.S. firms showed that those with good performance on “material” sustainability issues considerably

¹³ SASB Technical Bulletin 2016–01: Climate Risk.

¹⁴ http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf

outperform firms with poor performance on the same issues.¹⁵ Another comparison of 180 companies found that “high sustainability” companies—those that developed boards of directors concerned with sustainability and who linked these to top executive incentives—substantially outperformed their peers over the long-term, as measured by stock market and accounting benchmarks. The outperformance was stronger in sectors where customers were individual consumers (brand and reputation effects) and where significant extraction of natural resources was involved.¹⁶

Implications

Each of the four key actors outlined above will be critical to success. If governments do not help get the right market prices, then firms will always seek to evade ESG responsibilities. If regulators do not apply appropriate standards, then capital will continue to be misallocated. If financial managers are not convinced that “sustainable” practices bring about higher financial returns in the long run for their investors, they will not develop products to help channel resources to firms contributing the most to sustainable development. Unless shareholders and corporate managers push companies to set in place transparent processes for internal governance reform, they will not focus investments and operating activities to maximize sustainability along with profitability.

That said, in considering the world’s SDG investment needs, including climate investment, there is a practical reason to focus on financial managers. The world economy is highly decentralized and operates among millions of private enterprises widely distributed around the world. Given the nature in which financial resources are concentrated and managed by a much smaller number of financial intermediaries around the world, the financial sector could provide a special leadership fulcrum.

Recommendations

One of the challenges of updating the global financial system is that we do not know which individual initiatives might help generate a tipping point toward worldwide, SDG-consistent finance. However, we do know that success will not be achieved through any single flip of a switch. Nor will business-as-usual trajectories suffice. Leadership is needed both to expand existing successes and to continue experiment-

¹⁵ M. Khan et al., 2015, “Corporate Sustainability: First Evidence on Materiality.” Harvard Business School Working Paper 15-073. <http://hbswk.hbs.edu/item/corporate-sustainability-first-evidence-on-materiality>. A recent Blackrock report also presents preliminary evidence indicating that companies with better improvements in carbon intensity show better equity performance since 2012. Blackrock Investment Institute, 2016, “Adapting portfolios to climate change: Implications and strategies for all investors.” <https://www.blackrock.com/investing/literature/whitepaper/bii-climate-change-2016-us.pdf>

¹⁶ R. Eccles et al., 2011, “The Impact of Corporate Sustainability on Organizational Processes and Performance,” http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1964011

ing toward potential new breakthrough instruments. Around the world, all relevant actors and jurisdictions need to agree to pursue SDG-consistency in their market ESG metrics. This will require common language and timetables.

Beyond the important ongoing discussions of mobilizing ODA for Least Developed Countries and other developing countries, and providing the additional \$100 billion of climate-related financing, some specific actions to encourage sustainable finance could include:

- For the International Organization of Securities Commissions (IOSCO) to take a leadership role in ensuring its member bodies adopt streamlined regulatory efforts for “positive” ESG-SDG filters and to ensure SDG-consistency with an expanded Sustainable Stock Exchange initiative.
- For national regulators of banks and insurances companies to commit to identify and promote incentives that ensure member institutions assess appropriately broad metrics of risk and performance among clients.
- For the International Standards Organization (ISO) to establish SDG-consistent minimum certification standards for private companies.
- For credit ratings agencies to establish “SDG ratings” for individual companies, differentiated by industry, building upon emergent methodologies.
- For interested financial institutions to create “SDG index funds” that track the performance of qualifying companies, building on lessons from efforts like the ESG India Index.
- For all large companies to identify and include SDG-consistent performance standards as part of their annual financial reports.
- For governments to implement sustainable development benchmarks in their own procurement practices.
- For national and sub-national governments to establish timetables for implementing SDG-consistent policy incentives for private investment.
- For local, national, and international business alliances and organizations that promote public-private partnerships to celebrate top companies that adopt and report on SDG-consistent ESG processes and performance standards. Prizes could be organized by industry.
- For government shareholders in multilateral development banks to ensure those banks undertake an expanded and catalytic role to leverage and mobilize public and private finance in devel-

oping countries—for example by preparing and originating “bankable and sustainable” projects that bring down the weighted average cost of capital and promote improved access to sustainable technologies.

Heads of state and government have a unique role to play in spurring the complex array of actors into coordinated action, within and across countries. Their leadership can establish common timetables and common purpose. Crucially, processes need to proceed in parallel rather than in sequence, in order to ensure mutually reinforcing actions and learning across actors.

The U.N. has a special role to play, even though it is not likely to be the appropriate venue for implementation of the above actions. The U.N. can leverage its convening power among heads of state and government; forge consensus around new norms; stimulate and connect a multi-pronged process to the global SDG conversation that it helps lead; and match the adequacy of collective effort by Member States with the urgency of the global challenge. Interested presidents and prime ministers could meet at the U.N. to develop a shared vision and then return home to mobilize their relevant national economic policy officials and regulators to work with market actors around an agreed timetable.

Timetables

We recommend that member states agree, in 2016, to a two-part timetable organized around major deadlines for 2019 and 2023, respectively, and carried forward in alignment with the annual forum on Financing for Development follow-up. First, Member States can establish a set of interim deliverables to be achieved by the 2019 High Level Political Forum (HLPF) when heads of state and government will gather to review progress on SDG implementation. These would include the presentation of each country’s “national action strategy” for sustainable finance at the 2019 HLPF. Countries could then engage in coordination and peer review during the course of the following year, and bring the results into the processes leading up to the 2020 deadline for presenting long-term national climate strategies.

To arrive successfully at the 2019 juncture, all countries could initiate a process in 2017 across key stakeholders within their respective jurisdictions. In the meantime, regulatory changes could be implemented or at least begin a process of public debate. Corporate ESG reporting standards will also likely continue to evolve throughout the period.

Second, Member States can establish a 2023 deadline for fully implementing a globally coherent and sustainable finance system consistent with the SDGs. That year will include the next major HLPF summit, and will mark the calendar midpoint between now and the Agenda 2030 deadline. This deadline must be a centerpiece for global collaboration, otherwise the window of opportunity will close—before the right mix of resources can make it to the right places for SDG achievement.

