

EVENT REPORT

The Future of Finance

March 16–18, 2021 | Online Event

Sustainable finance has gained considerable traction in recent years, becoming one of the megatrends in the financial industry. It has already influenced capital allocations globally, with prime examples being commitments from institutional investors to divest from fossil fuel companies and other “sin” sectors. Environmental, social, and governance (ESG) funds attracted record inflows in 2020, and the CEO of Blackrock—the world’s largest asset manager, Larry Fink—wrote a public letter to the business community stressing the potential financial impacts of climate risks. Meanwhile, the European Union recently made a move to regulate the definition of sustainable financial products.

It is against this backdrop that the International Institute for Sustainable Development (IISD) and the China Council for International Cooperation on Environment and Development (CCICED) have organized a series of virtual events on the theme, The Future of Finance. These events are key for the Building Bridges community, which is a growing movement of organizations dedicated to advancing a sustainable financial system in Switzerland and across the globe. The next Building Bridges Week and Summit will take place on November 29–December 2 in Geneva, and our events have contributed key ideas in the run-up to that moment.

The events gathered almost 450 participants from throughout the world and were held in English with Chinese interpretation. The session themes were:

- Session 1 (March 16, 2021): **Sustainable Investing Trends in 2021**
- Session 2 (March 17, 2021): **Nature-Based Infrastructure as an Asset Class**
- Session 3 (March 18, 2021): **Gender Lens Investing**



Session 1: Sustainable Investing Trends in 2021

The first session provided the “big picture,” exploring the various trends of sustainable investing in 2021 and the related opportunities and challenges. In his opening remarks, **International Chief Advisor of CCICED Scott Vaughan** provided insight into the unique role played by the CCICED in sustainable finance in China following the nation’s commitment to carbon neutrality in 2020. Some of the issues that the organization is actively working on include the EU–China common taxonomy, conservation finance, and shifting to a greener Belt and Road Initiative.

The session was moderated by **Peter Cripps, Editor of Environmental Finance**. He provided a broad overview of the sustainable investing trends of 2021 and described the 26th Conference of the Parties (COP 26) as having the potential for positive change. He called on central banks and regulators to be “game changers” with the ability to “wake people up” and acknowledged the importance of stress tests. While talking about innovative financing instruments, he spoke of transformative trends like targeting key performance indicators (KPIs) and the increasing use of Sustainability-Linked Bonds. He concluded the overview on a positive note, highlighting the European Union’s recently launched sustainable action plan to combat green washing.

David Uzsocki, Sustainable Finance Lead and Senior Advisor at IISD, contributed to setting the scene by presenting the current state of sustainable finance and the key trends that will define the space in 2021. He highlighted that sustainable investing was a new investment paradigm that has been growing dramatically, with USD 4 trillion in new investments every year. He added that this growth trajectory is unlikely to slow down soon. This rapid growth is due to a combination of factors, including better awareness of the financial impacts of ESG risks and the ongoing wealth transfer to millennials. On trends, he talked about the need to improve the “quality of sustainability” and put a stronger emphasis on natural capital and gender considerations.

While discussing the main trends in sustainable finance in 2021, **Ma Jun, Chairman of the Green Finance Committee of China Society for Finance and Banking**, stressed the need for financial systems to be aligned with the help of a standard taxonomy. He urged companies to disclose their exposure to brown assets while emphasizing that these goals could only be achieved with active international collaboration.

Marie-Laure Schaufelberger, Head of Group ESG & Stewardship, Pictet Group, presented trends in the field from the perspective of an asset management company. The group explained that a transition from a focus on “process” to “outcomes” of sustainable investment has taken place. Several categories of financing instruments in the form of sovereign debt to fixed income have also become increasingly involved. Furthermore, Schaufelberger threw light on the change in “client mindset,” with clients now demanding less narrative and more science-based metrics to evaluate the impacts of their investments.

All panellists agreed that although sustainable finance is a step in the right direction, there are several themes and aspects of it that require greater attention. **Stephen Heintz, President and CEO of the Rockefeller Brothers Fund**, urged stakeholders to focus on three key



aspects: the “quantity” of sustainable investment, the “quality” of it, and the “honesty” in reporting and disclosing. Additionally, Uzsoki underlined the need to expand the scope of sustainable investing by mainstreaming and integrating gender considerations into financing instruments, irrespective of their individual theme focus. Also, the spectrum of financial instruments should move beyond the singular focus of carbon by adding nature-based solutions as an asset class for mainstream investors. Cripps added that impact investing is currently being practiced as a mere “fiduciary duty” by companies, echoing that impact is much different from risk mitigation. Schaufelberger mentioned that, across the board, all themes need to garner more capital to drive any positive change. She concluded that the flexible nature of sustainable finance provided an opportunity for “everyone to jump in” to fulfill goals and targets.

A question from the audience was raised on the “divestment” in fossil fuels as opposed to “engagement” with them. Heintz declared that there was “no right side”; however, he suggested that engagement in addition to other strategies should be deployed to place pressure on and influence organizations to change policies. He added that the Rockefeller Brothers were successful with their divestment strategy because, at the time, “economics harmonized beautifully with ethics,” such that it was the right and eco-prudent thing to do. Further, he mentioned a change in circumstances, such that “earlier it was too risky to divest, and now it is too risky not to divest.” Schaufelberger added that “not a single tool, but a plethora of different instruments” had to be used. Engagement can be a good option if it is proven credible by demonstrating positive change.

One of the final concluding questions was whether the panellists saw a tipping point in the form of a market takeover or if policy-makers still have a relevant role to play in sustainable investing. To this, Heintz replied that it was possible that “climate change is at a closer tipping point than a market takeover.” Jun added that globally acceptable frameworks have to be developed with the help of various stakeholders, including policy-makers, to prevent greenwashing and high transaction costs. Uzsoki also mentioned that policy-makers are crucial for ensuring the “quality of sustainable investment.”

Key Takeaways of the Session

1. Sustainable investing is a revolution; however, there are several areas that require more focus.
2. The market alone cannot create a positive change if corporate behaviour does not change. For sustainable investing to truly scale, a collaborative effort must be made by all stakeholders involved, including investors, policy-makers, and financial institutions.
3. One focus should be a general enhancement of the quality of investments. Currently, the quality of sustainable investments has been grossly overshadowed by the sheer quantity of investments.
4. Along with exposure to green investments, it is vital for investors to disclose their exposure to brown investments and provide the “full picture.”



Session 2: Nature-Based Infrastructure as an Asset Class

Nature-based infrastructure (NBI) remains nascent, and there is a general lack of understanding of what it is and its value proposition. In order to scale up NBI, it must be demonstrated to be investment-ready with a set of unique characteristics that are appealing to both public and private investors. In other words, NBI needs to become a distinct asset class. For this to happen, several dimensions of work need to come together in a systemic and synergistic manner and in scale. To discuss this potential “future of finance,” the second session had a high-level panel of experts in the field.

Liesbeth Casier, Senior Policy Advisor at IISD, provided an introduction and overview of the concept of “nature-based infrastructure.” She defined nature-based investments as “deliberately planned ecosystems” that can potentially provide a plethora of benefits to society and the environment. Some of the benefits include increasing the efficiency of less sustainable or grey infrastructure, having positive impacts on health and well-being, enhancing climate adaptability, and building future resilience against the impacts of climate change. However, despite these wide-ranging benefits, nature-based investments have failed to scale up to their potential. Casier threw light on three barriers preventing a scale-up: first, the lack of predictability caused by patchy evidence of financial performance; second, the lack of comparability as a result of the underdeveloped knowledge base; and third, the lack of identification and recognition of revenue streams.

On this, it is to be noted that IISD has recently started a partnership with the Global Environmental Facility, the United Nations Development Organization, and MAVA to establish the business case for NBI, build capacities and enable investment. As part of this collaboration, IISD provides valuations of NBI to improve predictability and knowledge on its performance for climate adaptation.

The importance of natural capital was also explored by **Michael Urban, Senior Sustainability Analyst at Lombard Odier**. He described the long-term decoupling model used by Circular, Lean, Inclusive and Clean (CLIC). He encouraged stakeholders to focus on the regenerative characteristics of nature and harness its power, adding that positive change could only be realized through outcome-oriented decisions and conscious consumption. This session was moderated by **Kali Taylor, Policy Advisor at IISD**. She summarized the systemic nature of systems as not independent but related and providing co-benefits.

For nature-based solutions to become a separate asset class, **Martin Berg, Head of Natural Capital Impact Strategy at HSBC Pollination Climate Asset Management**, emphasized the importance of mainstreaming natural capital. Since there is a significant amount of risk involved in investing in such assets, the solutions need to be more attractive for institutional investors. One approach is by blending the innovative financing instruments with more traditional financing sources. **Margaret Kuhlow, Finance Practice Lead at the World Wildlife Fund**, added that the benefits of nature-based solutions need to be quantified. Additionally, investors should be made aware of the co-benefits of these solutions.



While discussing the latest innovative instruments and solutions available to address the “lack of revenue stream” problem, the panellists presented a variety of solutions to ameliorate the current situation. Casier echoed the need to blend finance and to present the potential of KPIs and other instruments, like carbon credits and offset schemes. Berg emphasized the vital role the public sector can play in analyzing risks by leveraging their position, as well as the costs and benefits of projects. Finally, Kuhlow also mentioned the use of more nuanced standards established by instruments like sovereign green bonds to tackle the challenge.

One question from the audience related to how ethical it is to monetize nature. Kuhlow urged stakeholders to “identify the difference between ‘price’ and ‘value.’” She added that humanity had so far exploited nature and “priced it at zero” and that it is imperative to place a value on it. Urban added that it is a collective challenge to preserve and harness nature. To do so, the stakeholders have to find a common language and design common goals to support the positive challenge.

To conclude, Taylor asked the audience to share their main takeaways from the session. The most prominent takeaway observed was identifying the “intrinsic value” of nature.

Key Takeaways of the Session

1. The “intrinsic value” of nature must be acknowledged and respected. Until now, humanity has collectively exploited and priced nature at zero. With the help of nature-based investments, the collective challenge of preserving and harnessing nature can be tackled due to the intrinsic, regenerative characteristics of nature.
2. Nature-based investments have a wide variety of co-benefits, ranging from the low-maintenance of natural infrastructure to improving the soil and water quality of the surrounding environment.
3. The challenge lies in mainstreaming and scaling this type of investment despite the lack of evidence of predictability and comparability. One way of tackling this problem is with active participation from all stakeholders in developing a knowledge base from which capital investors act as a bridge to their institutional counterparts.
4. A shift in the thinking and mindset of the actors involved is key. To truly create a positive change, a collaborative effort with a role for everyone is required. It is also essential for the public and private sectors to play complementary roles in evaluating and mitigating investment risks.
5. There are several innovative financing instruments and solutions available to address the lack of revenue stream problem. One of the most effective resolutions could be to blend traditional and innovative financing mechanisms in a way that they reinforce each other and increase the attractiveness of the asset.



Session 3: Gender Lens Investing

Sustainable investing has experienced impressive growth in recent years, reaching USD 40 trillion¹ in assets under management in developed countries alone. However, only a fraction of this amount, USD 17 billion, has gone into gender lens investing, a growing segment of sustainable investing that focuses on advancing gender equality. Achieving gender equality is essential for a prosperous and sustainable world, as it affects all aspects of sustainable development. To discuss opportunities and challenges in mainstreaming gender considerations into sustainable finance, a high-level panel of experts from various sectors came together in this session.

David Uzsoi, Sustainable Finance Lead and Senior Advisor at IISD, introduced the topic and emphasized the need to integrate gender considerations into all sustainable finance instruments. This is important not only because the most pressing environmental and social challenges of our time impact women disproportionately but also because of the social and financial benefits of gender diversity. He also emphasized that gender inequality is a key driver of poverty and one of the most common forms of discrimination. Therefore, addressing this issue should be a priority, especially for investors with a sustainability mandate.

To scale gender investing practices, Uzsoi recommended the integration of gender indicators into all financing instruments, irrespective of their thematic focus—for instance, into green bonds. Other practices should also be explored, including the use of eligibility criteria, negative screens, or eliminating companies with less than a minimum standard in gender diversity.

Suzanne Biegel, Founder of Catalyst at Large, expressed hope for the gradual growth of gender lens investing comparable to the growth in climate finance strategies. She explored the possibility of arriving at an equivalent of a “net-zero commitment” for gender with a constant engagement of stakeholders. She emphasized the need for leaders to start with a concrete strategy where gender is a core factor of analysis. To achieve this, “blind spots” in the form of risks had to be identified with the help of the data available. Impactful partnerships should be leveraged so that decision-makers can recognize the intersectionality of gender with other themes. She urged stakeholders to focus on the “and” rather than the “or” for effective gender integrations.

To explore gender considerations in practice, **Christine Roddy, Executive Director at AlphaMundi Group**, discussed the best practices used by the organization. Two steps taken were building gender-balanced teams and building a gender-smart portfolio where gender equality is a core principle. She emphasized the need for capital providers to play a unique role in driving change. AlphaMundi Group is spearheading the project on building a gender business case by mapping the market for gender lens investing products, specifically in Switzerland. The group has also developed the “G-search.”

Valuable best practices were also provided by **Frederic Pinglot, Group Sustainability Performance Director of Schneider Electric**. Schneider Electric introduced one of the first sustainability-linked bonds with gender KPIs. The KPIs aim to improve representation and the capacity of women. Pinglot went on to explain that the bond was the result of the progressive strategy of the organization to improve gender balance that actively targeted issues relating to

¹ <http://www.opimas.com/research/570/detail/>



the pay gap, hiring, and leadership positions. Therefore, for organizations to drive change, organizational culture, the robustness of decision making, and effective and transparent auditing are key.

On the question of how regulation can help improve gender integration, Biegel replied that the engagement of *both* markets and governance is required. She also gave examples of changes in laws in a few countries that drove change. Roddy emphasized that specificity and context matter and that setting stiff targets for leadership may not be a good idea in every case. Instead, it was imperative for various actors to be aware and given incentives to improve their gender performance gradually.

The moderator of the session, **Kali Taylor, Policy Advisor at IISD**, summarized her takeaways from the session. Two important observations were the need for stakeholders to “get out of their comfort zone” and that actors from every sector had a role to play in driving positive change. She also asked the audience for a takeaway from the event.

Key Takeaways of the Session

- 1. There are social and financial benefits of gender lens investing:** Women are often most vulnerable to social and environmental challenges. Gender mainstreaming is important not just to mitigate that but also in the ultimate quest to eliminate poverty. A change of mindset is required, as data shows that gender-balanced companies with women in leadership positions often outperform others.
- 2. The mindset of capital providers is vital in establishing a business case for gender lens investing:** Capital providers should leverage their position in the market and seek to be role models by choosing to do the “right thing” and stepping out of their comfort zone. This can be done by building better teams and empowering the leadership by introducing performance incentives to improve decision making. Additionally, a transparent accountability mechanism should be established to ensure robustness.
- 3. Strategies for integrating gender considerations into all new sustainable finance instruments:** The international community is currently facing challenges in integrating gender considerations into sustainable financing instruments. However, there are several ways to do it:
 - Gender should be a core factor of analysis irrespective of the theme of the financing instrument. The focus should be on “and” as opposed to “or” when considering the intersectionality of gender with other issues.
 - A definite strategy should be set to identify risk frameworks involved and the opportunities that follow. A similar approach should be taken as has been done with climate change. Active engagement and practice of gender considerations by the stakeholders involved will help reach a net-zero equivalent objective for gender.
- 4. Gender lens mainstreaming is a collaborative effort:** The specificity and context of gender considerations should be actively targeted by the stakeholders involved. Both governments and markets should be involved in working toward the change by leveraging their individual positions of power.

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