Keynote Address: Sustainable Finance

Margaret L Kuhlow

Finance Practice Leader, WWF International

I. Background

Thank you very much for the wonderful introduction, Martin. I really appreciate that. WWF is in fact the world's largest environmental NGO founded in 1961. There are more than 6,000 of us active in almost 100 countries. We have over 5 million supporters and more than 25 million followers on social media. You might also be surprised that we are also interested in sustainable finance.

II. Dynamics in Sustainable Finance

1. Growth

Momentum in favour of sustainable finance is clearly accelerating. The value of investment assets committed to the principles for responsible investment is now over $65 trillion. As you can see from this chart from PRI, the policy interventions are also growing exponentially. Green finance tools are also gaining traction. One significant example is the green bond market. ICMA runs the secretariat of the Green Bond Principles under Nick Pfaff and many ICMA members have actively supported the development of these voluntary guidelines. You deserve a lot of credit for getting this market moving. This market has shown significant growth, more than tenfold in the last five years. While it is still only a small part of the overall bond market today, at the current pace and given increasing demand it could grow to as much as 15% of the overall bond market.

2. Standards

Of course this market is not without controversy. We would like to see that growth occur in a way that focuses on transparency and impact. Early in the development of the market, it made sense to have voluntary standards and focus at the principle level. Now, however, as demand grows, investors are also becoming more sophisticated. They are kicking the tyres. They want to know if the assets underneath are really green. For this market to deliver on its green promise, it now needs credible, meaningful, effective standards, both for the definition of eligible investments underneath and also for reporting for the impact on those investments.

It has been great to see the Green Bond Principles mirrored in the Green Loan Principles. There is a lot of momentum both in the environmental use of proceeds and also in, for example, revolving credit facilities where bonuses and financial incentives are tied now to non-financial targets. Green finance is an important tool to build the financial infrastructure and ecosystem that will help us to address environmental challenges.

3. Financing Gap

Our next panel consists of many sustainable finance experts and I would like to spend a little bit of time talking about why this conversation matters. Firstly, it is a good start but the financing gap is big, on the order of $200-300 billion still needed to protect earth's natural capital. Not only is the financing gap big; so is the environmental challenge. I want to invite you for the next 5 to 10 minutes to join us in our world: what do we see happening?

III. Human Impacts

For about 10,000 years humans have enjoyed relative stability at a planetary level. Since 1950, however, we have seen exponential growth in a number of factors that put additional stress on the environment from population to CO_2 emissions to overfishing. Human impact is now the undisputed single largest impact on the earth and we are using up the earth's national resources at a rate that is faster than the earth's ability to replace those resources.

For example, Earth Overshoot Day is the day at which scientists measure each year the point when we use more resources than the earth can regenerate in a year. In 1970 we reached Earth Overshoot Day in the last week of December. Last year, we reached that point in the first week of August. That means for the last third of the year, we were eating into our natural capital. How bad is it? Every other year WWF publishes the Living Planet Report and in it the Living Planet Index. In our most recent publication we projected that by 2020 we will have lost about two thirds of the vertebrate species that we measure since 1970. That is two thirds of species lost just in our lifetimes. To understand how we might bend this curve, we need to look a little bit more closely at the underlying causes.

We will start with climate change. You may have seen the infographic from the Intergovernmental Panel on Climate Change report from 2014, their report number 5. It basically showed us what we could expect to see from climate change in the coming years: significant potential impacts on our health, our livelihoods and food production in particular. Many of these impacts we are already seeing. We will take a closer look at some of those systems that underline this.

IV. Climate Change Impacts

1. Oceans

Firstly, covering about 70% of the earth, our oceans are a significant driver of economic, social and environmental prosperity. From the oxygen we breathe to the fish we eat and even the vacations we take, in fact the goods and services that flow from the ocean coastal environments are estimated to amount to about $2.5 trillion a year. That is about a third of the financial flows in the global bond markets. This tremendous annual revenue is drawn from an asset base measured conservatively at about $24 trillion. That is comprised of, for example, our coral reefs, seagrass beds, fisheries, coastal areas and all the services that they provide.

Green finance markets are just starting to recognise the value in these assets but our oceans are under severe stress. Nearly a third of our fish stocks are overfished and the World Bank has estimated a loss of global revenue as a result of this overfishing of about $83 billion a year. Mangroves and their invaluable nurseries and storm protection are being cleared at a rate that is three times faster than tropical forest clearing. One of the most pervasive threats to our oceans is climate change. Corals are susceptible to warmer sea temperatures and as a result they are bleaching and dying. Our corals and the services they provide are worth over $1 trillion and we have lost over half already. Some projections show we may have lost them all by 2050.

Pollution is also a significant risk to our ocean ecosystems. 80% of ocean pollution comes from land-based sources including about 8 million tonnes of plastic every year. That is about 15 large garbage bags for every metre of coastline. That number is expected to double by 2025. It is not just an eyesore and a danger to marine life. This also ends up on our plates.

2. Freshwater

In freshwater, if climate change is a shark, freshwater impacts are the teeth. This is where we are already feeling impacts from climate. In just one example, due to the drought in Cape Town this year wine producers who employ about 300,000 people estimate the grape yield for 2018 will be about 20% less than the previous year. Together with other agricultural commodities, the expected loss in sales is almost $500 million. That is just the agricultural impact. It does not touch the human impact that the residents of Cape Town have been suffering through this winter.

Our cities and our businesses are already feeling these risks. CDP has estimated that the impact of droughts, floods and water pollution costs businesses $14 billion in 2016. That is about a fivefold increase over the year before. Almost two thirds of the cities that disclose information through CDP foresee a risk to their own water supply in the current year due to climate change. Almost half of the companies that report through CDP expect water risks to which they are exposed will have a significant impact on their business operations in the next year. Moreover, the World Bank estimates the water risks will be faced by two thirds of the globe by 2050.

3. Food Production

The way we produce and consume food is currently the greatest threat to our natural resources. Food production fuels deforestation. We consume more than one and a half times the planet's natural food supply and our food systems account for somewhere between a quarter and a third of all greenhouse gas emissions.

V. The Role of Finance

1. Overview

What do we need to do? In order to stabilise the planet and its resources we need to stabilise climate. We need to stabilise population inequity and we need to stabilise the biosphere. How are we going to do that? We believe that finance is one way. It is a key tool. We have seen tremendous interest in sustainable finance from policymakers. Finance has been seen in the past as agnostic at best and part of the problem at worst. However, it is really a potential part of the solution.

2. TCFD

The biggest example of policy moves in sustainable finance is probably the establishment of the Task Force on Climate-related Financial Disclosure which was established under a mandate from the G20 financial stability board and chaired by Michael Bloomberg. The TCFD issued its voluntary disclosure recommendations in June of last year and as of 1 May 275 companies with a combined market cap of more than $7.1 trillion had signed on and committed to those disclosure recommendations.

3. Regional and National Initiatives

There are also a number of other regional and national market examples. Firstly, with its bold publication of the 10 point action plan the EU made clear its intent to become a world leader in sustainable finance. Requiring investors to assess and address environmental and social risks can bring EU economies closer to the commitments of the Paris agreement and the sustainable development goals. This is one of, I think, the fastest moving efforts we have ever seen policymakers undertake perhaps anywhere in the world.

In China where the G20 focus on green finance started and continues, the green finance initiative has recommended that investors integrate ESG issues in line with the Chinese guidelines for establishing a green financial system. Focus areas include policy guidance, corporate disclosure as well as investor education. In the UK, more recently the financial task force issues a 10 theme package, comprehensive regime on climate-related financial disclosures including recommendations to implement the TCFD.

4. Business and Investors

Sustainability is also on the radar of business and investors. Environmental risks are becoming serious business risk for financial institutions and their clients. This year's World Economic Forum Global Risk Reports ranked risk based on likelihood and impact and once again identified environmental risks among the top. In fact, environmental risks including water crises made up six of the eight top risks this year.

VI. The Work of WWF

We need to work together to address these challenges and bend the curve. At the current pace of extinctions, by 2030 we may be looking at a significant and dangerous biodiversity event. At WWF we are focusing on a way to halt, plateau and restore critical biodiversity. We want to find those things that will halt species loss by 2025, stabilise those numbers by 2030 and then restore life on the planet that supports our lives and our livelihoods.

In sustainable finance we have been active in promoting the establishment and application of stronger standards in the green bond market. We have worked with global banks to promote policies that protect the world's most valuable areas, world heritage sites. We have examined the world' largest European asset owners and their alignment with science-based targets of the Paris Agreement and we have examined the environmental, social and governance practices of financial solutions in markets as diverse as Switzerland and ASEAN. We are also measuring public interest in these issues.

During this year's Earth Hour we started to measure social media impressions related to the environment across the globe. All together over the first quarter of this year we observed more than 3.5 billion impressions. We have long known that people care about the environment and we can now connect to that conversation in a more systematic way. This can connect us all to the earth. These 3.5 billion impressions are your clients. They are your customers. They are your employees. We expect this interest to grow as more and more people become aware of our global resource challenges and the opportunities that that presents. We have about a decade to realign our actions to the targets of the Paris Agreement and the sustainable development goals. Finance cannot be viewed as part of the problem and it cannot be viewed as sitting on the side-lines. It needs to be solidly a part of the solution.

VII. Conclusion

With that I want to thank Martin Scheck again and ICMA for the wonderful invitation to speak with you today and close on a positive note. The progress we see in sustainable finance is encouraging. More green finance, greater ESG integration across products and markets, improved disclosure. We need more and we need it faster in order to secure the future that we want our children and our grandchildren to enjoy. Thank you very much.