

Finance for SDGs

Background paper for Bellagio
High Level Meeting February 2015

1. 2015 a Year of Opportunity

Jeff Sachs New York December 2014

<http://www.project-syndicate.org/commentary/sustainable-development-2015-by-jeffrey-d-sachs-2014-12>

“The year 2015 will be our generation’s greatest opportunity to move the world toward sustainable development. Three high-level negotiations between July and December can reshape the global development agenda, and give an important push to vital changes in the workings of the global economy. With United Nations Secretary-General Ban Ki-moon’s call to action in his report “The Road to Dignity,” the Year of Sustainable Development has begun.

In July 2015, world leaders will meet in Addis Ababa, Ethiopia, to chart reforms of the global financial system. In September 2015, they will meet again to approve Sustainable Development Goals (SDGs) to guide national and global policies to 2030. And in December 2015, leaders will assemble in Paris to adopt a global agreement to head off the growing dangers of human-induced climate change.

The fundamental goal of these summits is to put the world on a course toward sustainable development, or inclusive and sustainable growth. This means growth that raises average living standards; benefits society across the income distribution, rather than just the rich; and protects, rather than wrecks, the natural environment.

The world economy is reasonably good at achieving economic growth, but it fails to ensure that prosperity is equitably shared and environmentally sustainable. The reason is simple: The world’s largest companies relentlessly – and rather successfully – pursue their own profits, all too often at the expense of economic fairness and the environment.

Profit maximization does not guarantee a reasonable distribution of income or a safe planet. On the contrary, the global economy is leaving vast numbers of people behind, including in the richest countries, while planet Earth itself is under unprecedented threat, owing to human-caused climate change, pollution, water depletion, and the extinction of countless species. The SDGs are premised on the need for rapid far-reaching change. As John F. Kennedy put it a half-century ago: “By defining our goal more clearly, by making it seem more manageable and less remote, we can help all people to see it, to draw hope from it, and to move irresistibly toward it.” This is, in essence, Ban’s message to the UN member states: Let us define the SDGs clearly, and thereby inspire citizens, businesses, governments, scientists, and civil society around the world to move toward them.

The main objectives of the SDGs have already been agreed. A committee of the UN General Assembly identified 17 target areas, including the eradication of extreme poverty, ensuring education and health for all, and fighting human-induced climate change. The General Assembly as a whole has spoken in favor of these priorities. The key remaining step is to turn them into a workable set of goals. When the SDGs were first proposed in 2012, the UN’s member said that they “should be action-oriented,” “easy to communicate,” and “limited in number,” with many governments favoring a total of perhaps 10-12 goals encompassing the 17 priority areas.

Achieving the SDGs will require deep reform of the global financial system, the key purpose of July’s Conference on Financing for Development. Resources need to be channeled away from armed conflict, tax loopholes for the rich, and wasteful outlays on new oil, gas, and coal development toward priorities such as health, education, and low-carbon energy, as well as stronger efforts to combat corruption and capital flight.

The July summit will seek to elicit from the world’s governments a commitment to allocate more funds to social needs. It will also identify better ways to ensure that development aid reaches the poor, taking lessons from successful programs such as the **Global Fund to Fight AIDS, Tuberculosis, and Malaria. One such innovation should be a new Global Fund for Education,** to ensure that children everywhere can afford to attend school at least through the secondary level. **We also need better ways to channel private money toward sustainable infrastructure,** such as wind and solar power.

These goals are within reach. Indeed, they are the only way for us to stop wasting trillions of dollars on financial bubbles, useless wars, and environmentally destructive forms of energy. Success in July and September will give momentum to the decisive climate-change negotiations in Paris next December. Debate over human-induced global warming has been seemingly endless. In the 22 years since the world signed the UN Framework Convention on Climate Change at the Rio Earth Summit, there has been far too little progress toward real action. As a result, 2014 is now likely to be the warmest year in recorded history, a year that has also brought devastating droughts, floods, high-impact storms, and heat waves.

Back in 2009 and 2010, the world’s governments agreed to keep the rise in global temperature to below 2° Celsius relative to the pre-industrial era. Yet warming is currently on course to reach 4-6 degrees by the end of the century – high enough to devastate global food production and dramatically increase the frequency of extreme weather events.

To stay below the two-degree limit, the world’s governments must embrace a core concept: “deep decarbonization” of the world’s energy system. That means a decisive shift from carbon-emitting energy sources like coal, oil, and gas, toward wind, solar, nuclear, and hydroelectric power, as well as the adoption of carbon capture and storage technologies when fossil fuels continue to be used. Dirty high-carbon energy must give way to clean low- and zero-carbon energy, and all energy must be used much more efficiently.

A successful climate agreement next December should reaffirm the two-degree cap on warming; include national “decarbonization” commitments up to 2030 and deep-decarbonization “pathways” (or plans) up to 2050; launch a massive global effort by both governments and businesses to improve the operating performance of low-carbon energy technologies; and **provide large-scale and reliable financial help to poorer countries as they face climate challenges.** The United States, China, the European Union’s members, and other countries are already signaling their intention to move in the right direction.

The SDGs can create a path toward economic development that is technologically advanced, socially fair, and environmentally sustainable. Agreements at next year’s three summits will not guarantee the success of sustainable development, but they can certainly orient the global economy in the right direction. The chance will not come along again in our generation.”

2. The Need to Invest in Resilience.

Judith Rodin President
Rockefeller Foundation

<http://www.rockefellerfoundation.org/blog/acceptance-remarks-by-dr-judith-rodin>

*“Today, crisis has become the new normal. Because of that triple threat of rapid urbanization, globalization and climate change, a week doesn’t go by, that we don’t see some kind of disturbance to the normal flow of things—a cyber-attack, a new strain of virus, a structural failure, a violent storm, a civil conflict, an economic blow, a natural system threatened. But not every disruption has to become a disaster. There are **investments we can make upfront to save time, money, and lives**. The resilience dividend is the return on making investments in resilience that we can see every day. And not just financial return, although often it is, protecting assets or creating new jobs that provide new kinds of goods and services. The dividend can also come in the form of increased social cohesion—building bonds among neighbors, usually the first responders in time of disaster. It can come in the form of better air quality, water and energy access and utilization, and health outcomes. But good design is at the core—and **we must front-load our thinking and planning for resilience at a large scale**. Rockefeller has a portfolio of projects we call “Resilience by Design.” They aim to catalyze resilience planning and building with nature through interventions at land-scape scale.”*

President of World Bank
Jim Yong Kim December 2014

<http://www.worldbank.org/en/news/feature/2014/12/08/transforming-economy-achieve-zero-net-emissions>

*“Effective management of the economy also means finding ways to invest in resilience. With science showing that 1.5 Deg C of warming is already locked, **adaptation and mainstreaming disaster risk management become essential**. The World Bank Group will use its track record for financial innovation to raise a one-time injection of funds, strengthen insurance coverage for those most at risk and build resilience immediately”*

The Hyogo Framework for Action,
launched in 2005

The framework has been determinant in strengthening and guiding international cooperation efforts, in generating the political momentum necessary to ensure that disaster risk reduction

be used as foundation for sound national and international development agendas as well as in giving a common language and a framework of critical actions to follow to which governments have clearly responded. Recommendations in the 2010 mid-term review include:

“Standards to ensure quality in the delivery of the guidance could be developed at regional and national levels. The request for the collection of standards, where already available, or the development of standards for disaster risk reduction is consistent with a call for stronger accountability measures and in line with the application of targets for disaster risk reduction.

The international community should develop a more coherent and integrated approach to support HFA implementation. The development of a joint plan of action to support HFA implementation at the country and local levels connecting the work of different actors, such as UN agencies, donors, NGOs, and civil society networks, could help achieve a higher level of coherence and stronger impact of available resources.

*The prevailing views on a post-2015 framework for disaster risk reduction, irrespective of whether it would be of a legally binding nature or not, underscored the **need to ensure solid and structural links with sustainable development and climate change international framework agreements**”.*

3. Imagining a sustainable finance system

Simon Zadek and Nick Robins UNEP
December 2014 (Extracts) December
2014 (Extracts) Foundation

<http://www.zadek.net/wp-content/uploads/2014/12/Zadek-Robins-CIGI-UNEP-Inquiry-Framing-Paper-draft-20141124-1.pdf>

“The UN Intergovernmental Committee of Experts on Sustainable Development Financing has made estimates of the financial resources needed to deliver on the forthcoming set of Sustainable Development Goals, including investment for resilient energy, agriculture, transport, water, basic healthcare and education, access to energy, gender equality and global public goods such as bio-diversity and climate change mitigation. The Committee concludes that while there are sufficient public and private savings globally, current financing and investment patterns will not deliver investment where it is needed (ICESDF, 2014). UNCTAD estimates that there is a US\$2.5 trillion annual investment gap in developing countries to meet the post- 2015 goals (UNCTAD, 2014). Indeed, despite negative real interest rates in many countries, the financial sector is failing to deliver the finance needed to invest the US\$6-7 trillion a year needed for much-needed infrastructure, with one estimate of the annual gap of around US\$1 trillion a year (WEF, 2014). Nor does the financial sector meet the needs of SMEs, the main source of jobs in every economy, with a gap of US\$3.5 trillion (McKinsey/IFC, 2010)1.

A cluster of barriers in the real economy can be identified as explaining these shortfalls. **A lack of “bankable projects”** is a common complaint, and there is little doubt that the events of recent years have reduced the will and capacity to take long-term risks. **Weak and uncertain policies** prevent investment in low carbon, climate resilient projects in particular - where externalities such as carbon emissions are not adequately priced, fossil fuels and water use are subsidized and regulations such as building standards are poorly enforced. On the environment, furthermore, the lack of ‘green finance’ is widely attributed to the **higher relative cost of green over dirty investments**, although recent research highlights a falling premium across many major investment areas (Global Commission for New Climate Economy, 2014).

Can a sustainable financial system be described at all?

Complexity theory tells us that systems are continuously evolving, and are to a significant degree inherently unpredictable (Capra and Luisa, 2014). **Such systems are understood more effectively through a lens of institutional, evolutionary and behavioral economics** than a classical framework with steady state-equilibria in mind (Beinhocker, 2007)

Systems are also inevitably subject to external shocks that might determine their success or failure. Extreme natural disasters might unavoidably disrupt what otherwise might be taken to

be a financial system designed for environmental resilience. Breakthrough technologies widely adopted in the real economy might overturn the best-laid plans to finance renewable energy at scale, just as political factors might undermine externality pricing or the effectiveness of state

action to create livelihood opportunities or transfer resources to vulnerable individuals and communities.

The performance parameters of a sustainable financial system could be proposed as involving two axes, its impact on social and environmental systems (‘sustainability impacts’) and its own sustainability in the face of exogenous, shocks induced by these factors.

Governance, competition and ownership would be an integral part of design considerations concerning a sustainable financial system.

A working hypothesis could be that institutional investors responsible to pension fund and insurance policy holders are more inclined to count sustainability factors, if only because of their longer time horizons, and possibly because of the broader interests of intended beneficiaries. Yet sovereign wealth funds, with the notable exception of the Norwegian Oil Fund, have proved very conservative to date in their internalization of climate risk, let alone any adoption of environmental policy objectives.

Taking action enables learning-by-doing. Much needs to be better understood, conceptually, theoretically, and empirically. And much can and should be robustly researched.

Effectively theorizing requires that the right questions be asked, raising the possibility of them being usefully answered. The preceding discussions can be crystallized into a number of questions that, undoubtedly with others, need addressing:

1. What are the relative merits of deploying financial over “real economy” policies and regulations to address environmental and equity issues and outcomes?
2. What are the intersections of, and differences between long-term investment horizons and sustainability outcomes?
3. What are the impacts of short-termism, short-term trading activity and intra-sector trading on environmental and equity outcomes?
4. What is the level of fiscal support to the financial sector and its impacts on environmental and equity outcomes?

5. *How best can financial policy and regulatory aimed at social and environmental outcomes be sequenced and how can trade-offs be understood?*
6. *How does, can or should investor governance and associated public policies take social and environmental matters into account?*
7. *What is case for (and against) and practice of different approaches to policy-incentivized lending in addressing social and environmental objectives?*
8. *How could technology and institutional innovations in the financial sector impact social and environmental outcomes?*
9. *What is the impact of differing forms of, and policy approaches to credit creation on social and environmental outcomes?*
10. *How does financial market structure, including levels of concentration and ownership, impact social and environmental outcomes?*
11. *What is the role of citizens as consumers, investors, employees and/or as social movements in effecting the financial system's impact on social and environmental outcomes?*
12. *What is the case for (and against) and practice of central banks and financial regulators directly and indirectly pursuing social and environmental objectives?*
13. *How does, can or should analysis of systemic risk under macro-prudential activities take social and environmental matters into account?*
14. *Do different configurations of financial policy and regulatory authorities impact their capacity to address social and environmental objectives?*
15. *Should, can and do international finance governance institutions and processes take social and environmental issues into account?*

These are excellent questions for us to consider from the financing and insurance perspectives and also from the needs of regions looking to lead the implementation of sustainable development and willing to learn by doing.

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4. The role of science, data and systems modelling

The Planetary Health Commission-
December 2014 December 2014
(Extracts)December 2014 (Extracts)
Foundation

<http://www.visionariesunbound.com/events/advancing-health/participant-roundtable-series>

“To make more informed decisions, we need a more calibrated, coordinated approach to both scientific research and policy that shows why ecosystems matter. The tight interplay between human health/well-being and environmental changes such as global climate change, land use shifts, acid in our oceans, biodiversity loss, and a diminished supply of freshwater as we draw down our resources demands that experts work across their areas of expertise and take a “systems” approach to identify and solve these enormous challenges.

Decision-makers need to ground their plans and policies with the best science. They need to understand complex challenges and take advantage of opportunities to collaborate with scientists.

*Research on ecosystem change and human health can strengthen tools we already use to help us move towards sustainability. **Systems modeling tools, for example, can help decision-makers understand the interplay between the economic, societal (health and welfare) and environmental impacts of decisions under consideration.** Such modeling tools can help decision-makers, technical experts and the public better understand each other’s needs so that they can make better long-term decisions”.*

The Ecological Sequestration Trust ecosequestrust.org recognised the need for innovative approaches to resilience, finance and systems modelling 4 years ago and set out to build an open-source platform resilience.io which brings together world leading systems models and open-data to calculate resource and trade flows from human and ecological activity. The range of economic impacts of change on the system, e.g. in land-use, the built environment, agricultural or fishing practices, can be derived including effects on human health and wellbeing and includes behavioural economics.

This is a unique moment in human history when we have the following available for practical use:

1. Satellite land use data, free at end of use and updated regularly and cheap land and sea based sensors feeding back information through the internet.
2. Open data systems and data brokering frameworks for earth observation, census and crowd sourced data.

3. Advanced systems models with the cloud based computing power to make them accessible to communities.
4. Broadband communications capability accessed through mobile devices to enable systems modelling and feedback to be used in our daily lives.
5. A good understanding through science of the links between different aspects of human health, productivity, consumption, environment, ecology and human values.
6. The bringing together of Earth Systems Models at ICES to enable regional models to be informed by earth systems changes.

The UN Independent Expert Advisory Group (IEAG), established in August 2014, has just offered the UN Secretary- General several key recommendations for actions to be taken in the near future on Data, which reflect this opportunity: <http://www.undatarevolution.org/report/>

1. Develop a global consensus on principles and standards: *The disparate worlds of public, private and civil society data and statistics providers need to be urgently brought together to build trust and confidence among data users. We propose that the UN establish a process whereby key stakeholders create a “Global Consensus on Data”, to adopt principles concerning legal, technical, privacy, geospatial and statistical standards which, among other things, will facilitate openness and information exchange and promote and protect human rights.*

2. Share technology and innovations for the common good: *To create mechanisms through which technology and innovation can be shared and used for the common good, we propose to create a global “Network of Data Innovation Networks”, to bring together the organisations and experts in the field. This would: contribute to the adoption of best practices for improving the monitoring of SDGs, identify areas where common data-related infrastructures could address capacity problems and improve efficiency, encourage collaborations, identify critical research gaps and create incentives to innovate.*

3. New resources for capacity development: *Improving data is a development agenda in its own right, and can improve the targeting of existing resources and spur new economic opportunities. Existing gaps can only be overcome through new investments and the strengthening of capacities. A new funding stream to support the data revolution for sustainable development should be endorsed at the “Third International Conference on Financing for Development”, in Addis Ababa in July 2015. An assessment will be needed of the scale of investments, capacity development and technology transfer that is required, especially for low income countries; and proposals developed for mechanisms to leverage the creativity and resources of the private sector. Funding will also be needed to implement an education program aimed at improving people’s, infomediaries’ and public servants’ capacity and data literacy to break down barriers between people and data.*

4. Leadership for coordination and mobilisation: A UN-led “Global Partnership for Sustainable Development Data” is proposed, to mobilise and coordinate the actions and institutions required to make the data revolution serve sustainable development, promoting several initiatives, such as:

- A “World Forum on Sustainable Development Data” to bring together the whole data ecosystem to share ideas and experiences for data improvements, innovation, advocacy and technology transfer. The first Forum should take place at the end of 2015, once the SDGs are agreed;
- A “Global Users Forum for Data for SDGs”, to ensure feedback loops between data producers and users, help the international community to set priorities and assess results;
- Brokering key global public-private partnerships for data sharing.

5. Exploit some quick wins on SDG data: Establishing a “SDGs data lab” to support the development of a first wave of SDG indicators, developing an SDG analysis and visualisation platform using the most advanced tools and features for exploring data, and building a dashboard from diverse data sources on “the state of the world”.

5. The Aim of the Bellagio February 2015 Workshop

The aim of the workshop is to discuss if it is possible to bring these threads together into a practical demonstration of how all these needs can be addressed and understood better, as the post 2015 era evolves and to thereby increase the chance of success.

The outcome is intended to be a short report, setting out the possibilities of connecting these opportunities to inform and encourage a successful outcome from the sequence of meetings in 2015 and to add momentum to the rapid demonstration of successful delivery of the post 2015 goals. Also we hope to reach agreement by you all to disseminate and discuss findings as best you can through existing networks, publications and research from practical demonstration project

Peter Head Founder and Chief, January 2015