Sustainable finance

Discussion paper

January 2021

Tax and Regulation

Contents

Introduction 3

Chapters

1. People 10

2. Process 18

3. Purpose 28

Appendix 33

References 36

Introduction

The sustainable finance agenda has continued to develop at phenomenal pace throughout 2020, the year of the coronavirus pandemic.

The almost weekly emergence of new or enhanced methodologies to measure business activities against environmental, social and governance (ESG) criteria points to a significantly increasing number of financial services companies and their clients using sustainable finance principles as a framework for their investment decisions.

Sustainability continues to increase in importance at a governmental level with significant appointments this year alone. In January, Mark Carney, former Governor of the Bank of England and Chairman of the Financial Stability Board was appointed as a key advisor to the UK government for the UN climate change conference COP26 and in December President-Elect, Joe Biden appointed Brian Deese, Global Head of Sustainability at BlackRock to head up the US National Economic Council.

This is all framed within wider expectations of business among the public and policymakers to help meet societal challenges from climate change to modern slavery, to build a fair, sustainable and prosperous society as we build back from the pandemic.

Private investors, government institutions and corporates of all sizes are now increasingly adopting sustainable finance principles. While great progress has been made there is still a significant funding gap that needs to be bridged if we are to meet the UN's Sustainable Development Goals.

The CBI believes that the UK must continue to demonstrate leadership in these debates and maintain a global horizon to drive this agenda forward.

The CBI's work on sustainable finance

In June 2019 the CBI published the Green Finance Paper that focussed on the environmental elements of ESG (Appendix 1). This paper builds on the CBI's existing work by focussing on the social and governance criteria. These areas of ESG are of acute importance, yet there is a real need to educate business leaders about how to deliver on these agendas.

This discussion paper has been written in consultation with over 70 organisations of all sizes, both financial services firms and non-financial services firms, as well as sector associations to explore this topic.

This paper is not intended to be a definitive document but the start of a programme of work for the medium term which aims to increase the profile of these discussions and the adoption of ESG factors. CBI members rightly have different opinions on the future application of ESG principles, and it is hoped that this paper contributes to this very fast-moving debate as this field continues to develop and makes an impact.

To frame the discussion, the paper focuses on three areas: people, process and purpose. The paper also includes an overview of current policy challenges and champions a whole market approach to build a more resilient and sustainable economy.

1.**People**
Positive engagement between businesses and people, including employees, customers, supply chains, local communities and wider society.

2.**Process**
Operationalising sustainable finance principles within organisations through a usable taxonomy, definitions, incentives, and regulation.

3.**Purpose**
Defining who owns the sustainable finance purpose within firms and the required governance framework. The purpose of sustainable finance is to ensure finance can be a lever for sustainable outcomes.

CBI Commitments
In addition to the calls to action contained in this paper, the CBI makes the following commitments:

- The CBI will use its convening power to bring corporates together to assist in embedding sustainable finance within the economy;
- The CBI will use its voice to amplify the benefits of ESG to business and wider society for both investors and corporates across the economy;
- The CBI will promote good practice to members to help illustrate how sustainability might be achieved;
- The CBI will provide insight and data to facilitate delivery in the area of sustainable finance.

Spotlight: United Nations Sustainable Development Goals (UNSDGs)
The UN's Sustainable Development Goals are the blueprint to achieving a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace, and justice. The 17 Goals are all interconnected, and in order to leave no one behind, it is important that we achieve them all by 2030.

For these goals to be realised by 2030 all stakeholders in society need to play their part. Many businesses are already working hard to create a positive impact on society and nature through the guidance of the UNSDGs. To stimulate a flow of capital that supports the work corporates are doing to reach the UNSDGs sustainable finance can clearly play an important role.

Sustainable finance can be a tool in itself to achieving the goals, with many British corporates using ESG criteria to underpin their export criteria. Investors have an even more critical role to play to make the UNSDG a reality through their use of sustainable finance.

The current role of financial services in building a sustainable and resilient economy

Financial services continue to play a vital role in creating a more sustainable and resilient economy. As economies continue to tackle the acute impacts of the Covid-19 pandemic, many policymakers see ESG commitments as a cornerstone of the economic recovery. Sustainable finance will be a central component of this vision.

Every financial services firm is at a different stage of its sustainable finance journey. Most businesses are now legally required to measure and report their carbon footprint and have implemented processes to reduce emissions. Many are going further by being

conscious of ESG commitments in their lending and investment decisions, as well as developing sustainable products and services for their customers. In Europe, eco-conditionality has been applied to government loans where green criteria need to be met. For example, as part of the EU's Recovery and Resilience Facility, aimed at tackling the economic crisis brought on by the COVID-19 pandemic, member states must prepare national recovery and resilience plans for the money used. At least 37% of the plan's allocation must go towards supporting a green transition for a member state to receive financial support from the facility.[1]

While the first phase of the ESG movement saw the majority of companies focus on environmental concerns – the "E" of ESG – the second phase has an increased focus on Social and Governance priorities as part of overall resilience across the business environment.

This second phase of ESG also has major implications for relationships within supply chains. Investors are likely to examine how the firms they have invested in are delivering against their metrics on a number of social and governance factors. They will also be looking to see how firms are driving changed behaviours through supply chain management as a route to improving resilience. In sectors such as aviation and consumable goods, tier 1 firms have already leaned in on mid-tier and SME suppliers to commit to ESG criteria. This mutual commitment to ESG goals, guided by larger firms and their finance providers, is likely to set an increasing sustainability tone for B2B relationships in the future.

Case Study: Foresight Group sustainable real estate fund

Foresight Capital Management has launched a sustainable real estate fund which will invest in European, North American and Asian REITs with an aim to achieve a 4% yield and capital growth over a rolling five-year period.

Sustainability is a key focus in the stock selection process, with Foresight Capital Management making sure that the fund only invests in companies that are assessed to comply with the principles of the UNSDG and demonstrate impact against one of four specific UN Sustainable Development Goals. This means that not only do investors benefit from the income profile of real estate investing alongside the liquidity associated with public markets, they have assurance that they are contributing to a sustainability focused future.

Covid19 and the response to Lockdowns

In early 2020, much of the world economy ground to a halt as the coronavirus pandemic took hold and governments around the globe were forced to shut-down their economies in order to reduce physical contact between people to stem viral transmission.

Governments continue to maintain lockdown measures with recognition that a continued stimulus is required as long as restrictions remain. As restrictions ease, governments will increasingly focus on economic recovery.

This economic situation presents a unique opportunity to drive behaviour change in order to promote ESG. Therefore, the main objective of a renewed sustainable finance strategy should be to finance the "sustainable transformation" of our economy.

[1] https://www.consilium.europa.eu/en/press/press-releases/2020/10/09/covid-19-council-agrees-its-position-on-the-recovery-and-resilience-facility/

It is a common misconception that sustainable finance relates only to environmental sustainability whereas sustainability relates to full economic resilience. If we consider the UK Government's pledge to 'build back better, it will be critical to put the full range of ESG factors into play to rebuild a sustainable and resilience economy. It is now is the time to embrace the high degree of interest in ESG by policymakers.

On the social factor, the UK government and the Financial Conduct Authority have worked extensively with the banking, insurance and savings industries to introduce a wide range of measures aimed at helping consumers affected as a result of the coronavirus pandemic.

This ongoing programme of work has provided payment holiday arrangements for loans and credit facilities, mortgages and insurance to ensure that there is fair treatment for consumers during this unprecedented crisis and that the most vulnerable in society continue to be protected.

On the environmental factor, in July 2020, the UK government made its first pledge of £3bn to help boost the economy through environmentally positive measures, such as grants to improve the energy efficiency of homes and public buildings. Other countries are taking similar measures to support the business community whilst contributing towards the Net Zero target. Since the crisis, the German government has pledged a £36bn investment in measures to boost the economy while cutting emissions, whilst France is investing £13.5bn to the same end.

And in the UK government's November 2020 comprehensive spending review, the Chancellor pledged a number of significant commitments as part of the government's Green Industrial Revolution including:

- an additional £200m investment in carbon capture initiatives
- £525m investment towards nuclear power
- £1bn in 2021 using the green homes grant to insulate homes and public.

The role of policymakers and regulators

Across many industries, firms are taking a stand to address the increasing calls for more sustainable ways of doing business. At a global level, the UN Sustainable Development Goals have been a real catalyst for action, alongside the Principles for Responsible Investment (PRI).[2] However, whilst many businesses have embraced the challenge the increased focus on ESG has created, there is still a long way to go before ESG considerations become a central tenet of business decisions.

A recent MIRA survey showed that two thirds of investors are not yet using ESG assessment in their investment decision-making.[1] For those that do use ESG assessments, these tend to be based on exclusions rather than being positive behaviours – which are not the best way to drive transition.

However, a wealth of studies also show when businesses take heed of ESG considerations, they will prosper in the long-term. For example, companies with high employee satisfaction ratings have outperformed those with low ratings by nearly 5 percentage points per year over the past six years.[3] Furthermore, 90% of bankruptcies in the S&P 500 between 2005 and 2015 were of companies with poor environmental and social scores[4]. Similarly, it is estimated that over $20 trillion of asset growth in ESG funds will be developed over the next two decades- this is equivalent to the size of the S&P 500

[2] https://www.unpri.org/
[3] https://www.unpri.org/
[4] https://www.ft.com/content/f776ea60-2b84-4b72-9765-2c084bff6e32

today[5]. This growing body of evidence continues to show that those businesses who recognise the importance of ESG considerations within their portfolios are much more likely to prosper and to grow the whole economy.

There is a clear role for governments and regulators to play in relation to encouraging sustainable finance. As industry has shown, whilst the appetite for sustainable finance is high, many do not feel confident mainstreaming it into their businesses despite the fact it can help build trust and confidence among their stakeholders. Policymakers and regulators have the capability to provide that encouragement. By championing best practices and changing the collective values and behaviours that have built up over decades, the UK can act as a thought leader and innovator, shaping a progressive and forward-looking economic system that encourages industry to put sustainability at its core. The launch of the Impact Investing and Green Finance Institutes with support from the government, City of London Corporation and others demonstrate this potential.

The financial services regulators must remain committed to ensuring thorough understanding and monitoring of market developments and the emergence or lack of best practices. Inaction or bad policy decisions could put the UK on the back foot and risks creating an uneven playing field and competitive distortions between industry leaders and those who are lagging behind.

There has been significant progress made by the Climate Financial Risk Forum, co-chaired by the Bank of England and the FCA on disclosures and indicators for businesses across the whole economy with regards to climate related risks and stress testing. Much further and deeper action is required, including a prominent role for the Financial Reporting Council as it evolves into the Audit, Reporting and Governance Authority to drive change across social and governance aspects.

Demonstrating the approach that the investment community is being encouraged to follow, the ECB has committed to examine "greener" changes to all of the central bank's operations, including asset purchases. This could lead the Bank to using its €2.8tn asset purchase scheme to pursue green objectives, as well as looking into what changes could be made to all of its operations to reduce the impact of climate change[6].

There is an active and lively debate around whether regulators should be considering ESG factors in relation to investment risk and therefore ultimately capital requirements. Clearly there is strong business rationale for ensuring that the investor long-term outlook does factor in critical issues such as climate change, social impact and good governance and there is growing evidence that can directly link improved performance based on these factors.

However, there is currently insufficient agreement or body of evidence to support a call for such regulatory invention at this stage. Critical to the debate will be to see the outcomes from regulatory activities such as the Bank of England's stress testing on climate change for banks and insurers, which is due to begin in mid 2021. The Bank of England's Biennial Exploratory Scenario (BES) will be aimed at testing the resilience of banks, insurers, and the financial system as a whole in relation to different potential climate pathways.

[5] https://www.forbes.com/sites/solitairetownsend/2018/11/21/consumers-want-you-to-help-them-make-a-difference/#7fd3608f6954

Ultimately, the test should provide a comprehensive assessment of the financial system's exposure to climate-related risks.

There is a growing desire from consumers for a greater environment and social conscience from the companies they buy products and services from. A survey of UK and US consumers conducted in 2018 showed 88% wanted brands to help them become more environmentally friendly and ethical[7]. The same survey found that a majority, 43%, thought brands make it harder – rather than easier, to be more environmentally friendly or in daily life.

In the search for talent, the same views are present with future employees. A CBI report 'Everybody's Business', published in 2020, found that 76% of people thought if a company had a bad reputation, it would make them less likely to work for them, whilst only 7% disagreed. The same report found the top three issues respondents to the survey thought corporates should take action on were climate change, employment rights and education & skills – all causes that fit in to the scope of sustainable finance.

Such desires ultimately percolate through into the political arena as governments aim to give citizens the type of society they want, especially if there are clear wider benefits in doing so.

Sustainable finance also presents a real opportunity. Those firms that will thrive and prosper are highly likely to be those who identify the inevitability of legislative and regulatory action in this area and pivot to ensure they make the most of the opportunities.

Spotlight: The Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

At the Paris "One Planet Summit" in December 2017, eight central banks and supervisors established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Since then, the membership of the Network has grown dramatically, across the five continents.

The Network's purpose is to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the Network defines and promotes best practices to be implemented within and outside of the Membership of the NGFS and conducts or commissions analytical work on green finance.

Spotlight: Sustainable finance: the need for UK global leadership

The CBI's 2018 report Funding our future called for a UK financial services strategy that put customers first, maintained a global horizon and embraced innovation. It is critical the UK builds on its leading position in sustainable finance to secure its position as a global financial centre beyond Brexit and the Covid-19 crisis.

Government and regulators need to work better with the global financial services industry to avoid unintended consequences of regulation, shaping the development of sustainable finance worldwide.

---

[6] https://www.forbes.com/sites/solitairetownsend/2018/11/21/consumers-want-you-to-help-them-make-a-difference/#7fd3608f6954

In dealing with technological and geopolitical challenges, the UK financial services sector must maintain a global outlook and a commitment to global standards.

To maintain progress, UK policymakers must:

- Remain committed to a leading role to keep the UK at the centre of financial services policy at the global level
- Continue engagement in international dialogues to ensure UK financial services firms can embrace global challenges
- Ensure government, regulators and financial services firms actively promote international regulatory cooperation to reduce regulatory inconsistency and associated inefficiencies

A resilient, fair and dynamic system must be outward looking to continue to serve the whole economy. This will require new regulatory dialogues to maintain strong relationships and relevant knowledge but above all a strong commitment to a global vision, with regulators and HM Treasury having the resources they need to fully engage in global forums. This includes ensuring that global sustainable finance debate has the UN Sustainable Development Goals (UNSDG) at its heart.

Chapter 1: People

Positive engagement between businesses and people, including employees, customers, supply chains, local communities and wider society.

Sustainable finance centres around three clear themes; environment, social and governance. When the three of these are embedded effectively within sustainable finance, they have the ability to transform society. However, whilst there are a number of initiatives around the world aimed at greening the financial system, the social aspects are often overlooked by policymakers. There has been an evident increase in the attention paid to developing diverse and inclusive workforces, supporting employee wellbeing and upholding good labour standards, however the intricacies of social sustainability have not yet been fully realised.

Businesses have a central part to play in any society, creating jobs, growth and prosperity across the country. They also have a key role to play in local economies; investing locally to ensure communities are backed up by local talent. Businesses are waking up to the long-term value of harnessing the opportunities social investment offers. Businesses are not just seeing these are the right things to do, but they are understanding the long-term value investing in social ecosystems offers.

Research conducted by Federated Hermes amongst UK independent financial advisers (IFAs) found that 78% of IFAs believe their clients would take action to divest from companies they deem to have failed to support their employees and wider society through the COVID-19 crisis. Saker Nusseibeh CBE of Federated Hermes affirms that "companies must prove how they are delivering positive outcomes for society."

Reviving Regions – Empowering places to revive and thrive

In this CBI report, supported by Lloyds Banking Group, targeted action is called for to address longstanding regional inequalities across the UK to ensure that all parts of the country can build back better from COVID-19 economic crisis. A new approach is needed that empowers places to deliver strong labour markets, vibrant towns and cities, and attract business ecosystems.

The report recommendations include:

Build vibrant local labour markets

1. Government should transform Job Centres into regionally led Jobs and Skills Hubs, with strong local and regional autonomy to respond to changing job markets and align with local and regional skills and education initiatives.
2. LEPs and Growth Hubs must have the resources and capacity to deliver locally specific skills support. This should address the barriers SMEs face investing in skills and should support the UK's global ambitions for net zero and digital industries.
3. Government should establish a roadmap for the future of adult skills which includes the devolution of Adult Skills Funding to areas with devolution deals, in order to drive innovative approaches to reskilling and upskilling across regions.

Transform local infrastructure to facilitate new ways of working

4. Local and regional leaders should have the powers, funding and necessary skillsets to design and deliver local and regional plans for active, integrated, flexible and sustainable travel that meets the needs of local businesses and communities.
5. Local Authorities can do more to support broadband and 5G roll-out by working closely with network providers, embedding it within their economic development plans and appointing digital champions to Local Authority Cabinets, thereby ensuring all regions are attractive places to invest.
6. Government should provide Mayoral Combined Authorities and Sub-National Transport Bodies with long-term devolved funding settlements to deliver a clear regional vision for connectivity, housing, and economic growth. This must be complemented with multi-year budgeting for Local Authorities to allow for integrated long-term planning and investments.

Inspire world-class, innovative businesses to invest in all regions

7. Government should work in lockstep with LEPs and Growth Hubs, Combined Authorities, and pan-regional bodies, to deliver high quality, strategic business advice, particularly to support SMEs, and expose businesses to exporting opportunities.
8. Government should urgently outline plans for the future of the UK Shared Prosperity Fund. This must include parity with existing EU funding allowing local investment to align with local growth strategies and regional recovery plans.
9. Working with local and regional stakeholders, government must close the gap across regions between supply and demand for equity finance, supporting businesses to invest to grow, and create a thriving, post-pandemic economy.
10. Catapult Quarters should be established across the country to level up R&D spend, ensuring bids align with local recovery plans and deliver against long-term ambitions.

Workforce culture the key to unlocking the power of people

The sustainable success of any business relies on the ability to attract and retain the best talent. Today we are seeing a shift in employee attitudes towards the workforce. Employees are increasingly scrutinising the values, culture, and purpose of a business and how they support local communities. In the CBI Everybody's Business Report published in 2020, 67% of respondents felt more committed to an employer whose purpose and values align with their own. This is in part due to the increased representation of younger employees in the workplace, which has created a shift to a majority of employees now placing 'being dedicated to a cause' or feeling they are 'serving a greater good' as top career goals.[8] Furthermore, 86% of millennials would consider taking a pay cut to work at a company whose mission and values align with their own7 This means that a business' approach to diversity and inclusion and employee wellbeing is now viewed as a key value for corporate culture. As such, businesses are beginning to understand that a competitive advantage could emerge if they place greater emphasis on ESG considerations and riving forward a culture better placed to promote the value of people in the workplace.

One of the key barriers to social investing is the difficulty in defining it. Measuring and understanding the value of people has not yet been quantified. Without clear definitions and measurements, it is extremely difficult for businesses to invest in socially sustainable

[8] https://www.pwc.co.uk/financial-services/assets/pdf/pwc-diversity-is-the-solution.pdf

projects. One of the key barriers to industry take up of sustainable investing is the lack of clear definitions related to sustainable finance. Globally, there is no one standard or definition of what should be considered a sustainable investment. This deters economic confidence and acts as a barrier to scaling up socially sustainable initiatives. Similarly, unclear definitions can lead to distortions of the market through the mislabelling and mis-selling of sustainable products. There have been international efforts to define sustainability; the EU's taxonomy proposals have been broadly welcomed by industry as an attempt to define what counts as a sustainable investment, though at this stage it is focusing on the green factors. It is critical that this moves on swiftly to encompass social issues and we believe regulators have shown interest to do this. A taxonomy is a necessary first step before incorporating sustainable considerations in financial regulation; to ensure a smooth transition towards a sustainable economy a dynamic set of definitions is needed and should define not only green finance but also how an activity contributes towards the full sustainable finance agenda.

In their 2018 report, PWC found that diversity was a solution itself, not a problem to be solved. They found that diverse businesses create better outcomes for consumers, they create better business returns, diverse teams are more creative, they are more attractive to new & existing employees and they improve their brand perception.[9]

Change the Race Ratio

Early in 2020, an update to the Parker review[1] revealed that 37% of FTSE 100 companies and 69% of FTSE 250 companies surveyed have no ethnic minority representation on their Boards. To help increase black and ethnic minority participation in the work force, as well as stimulate businesses in actualising the benefits that come with diversity, the CBI launched its campaign, Change the Race Ratio, in October 2020. The campaign establishes four Commitments to Change for participating businesses, along with clear targets:

1. **Increase racial and ethnic diversity among Board members**
    a. FTSE 100 – At least one racially and ethnically diverse Board member by end 2021
    b. FTSE 250 – At least one racially and ethnically diverse Board member by 2024.
2. **Increase racial and ethnic diversity in senior leadership**
    a. Take action at ExCo and ExCo minus one to set clear targets and publish them within 12 months of making this commitment.
    b. In addition, establish a separate target for black participation at both levels.
3. **Be transparent on actions**
    a. Publish a clear action plan to achieve the targets and share progress in the Annual Report or on the company website.
    b. In addition, disclose ethnicity pay gaps by 2022, at the latest.

By helping firms establish clear targets that facilitate a more diverse workforce with increased black and ethnic minority participation the Change the Race Ratio campaign promotes both a more equitable society and a more successful business environment.

[9] Ibid

Gender pay gap reporting

Current developments on financial markets show an increasing interest for both socially responsible investments (SRI) and corporate social responsibility (CSR). The primary goal of this study is the application of finance as a connection between CSR and SRI. The first part of this paper argues that finance urgently needs a 'sustainability approach' to connect the initiatives from the CSR companies with the investor preferences of the SRI capital markets.

Reporting has a large role to play in enabling investors to make well-informed sustainable financing decisions. Social reporting in the form of gender pay gap reporting is already in place in the UK. From 2017, any organisation with 250 or more employees is obliged to publish and report specific figures on their gender pay gap. The initiative was welcomed by businesses, highlighted by 100% compliance with the first round of gender pay gap reporting. It is evident that when measurements are available, businesses will use them. Some are even going further in attempting to close the gender pay gap. The number of female directors on FTSE 100 boards has more than doubled between 2010 and 20189 and improving gender diversity at all levels of the business, introducing diversity targets and changing progression routes to senior roles for women are among the actions that employers are taking to close the gender pay gap.

When young women start out in their careers, it is important that they have role models they can emulate, ensuring they see their gender as no barrier to progression. One crucial way this can be achieved is by having women in senior leadership positions as it provides an eyeline of where their career may take them.

However, businesses cannot close this gap themselves. Many of the reasons for pay inequality lie outside the workplace including a lack of affordable, high-quality childcare and better careers advice. The economic case is clear: bridging the gender pay gap could boost UK GDP by up to £150 billion by 2025 and help get up to 840,000 more women into work.

Case Study: Moments that shape a woman's life

The insurance sector is also engaged in balancing the gender pay-gap with the Chartered Insurance Institutes' 'Insuring Womens' Futures' campaign. The campaign has the backing of all the major trade associations in the sector as well as bodies such as the City of London. In its report[11], they highlight six moments in women's' lives that are pivotal points in life, designed to inform life decisions and to pre-empt and help manage risks that may arise. These moments have critical risks associated with them that provide heightened exposure for women, often coinciding with other risks, and with potentially life long consequences.

1. Growing up, studying and re-qualifying
2. Entering and re-entering the workplace
3. Relationships: making and breaking up
4. Motherhood and becoming a carer
5. Later life, planning and entering retirement
6. Ill-health, infirmity and dying

By helping firms to identify where these risks are most likely, they can take action to help reduce the likelihood that a gender pay-gap will occur and promote opportunity for women entering the industry.

Case Study: LGIM Gender in Leadership UK index fund
To engage firms on diversity issues, actors are creating their own indexes to measure individual firm's diversity scores. Legal & General Investment Management have created a Gender in Leadership UK index fund. This allocates a score to FTSE 350 firms based on the number of women on boards, in executive level roles, management and the overall workforce balance. LGIM will then invest more heavily in firms with higher scores offering an incentive for those who fall behind to address and correct their behaviour towards issues such as gender diversity. In order to achieve a positive score, companies must achieve 30% female representation across the four aforementioned categories in order to receive a positive score. Importantly, LGIM also engages with firms that are lagging behind in the list to drive diversity. It is vital that throughout the sustainable finance transition, those companies falling behind must be encouraged to change to drive real whole economy transition. Furthermore, LGIM research has found that workplace gender parity could add an estimated £180bn to the UK's GDP12.

The central role of supply chains in sustainable finance

Oversight of supply chains has the power to be one of the most transformative elements of ESG that a company can engage in. Firms in the S&P 500 ESG Index beat the standard S&P Index in terms of performance by 0.6% during the first four months of 2020; a time when a the Covid19 lockdown ground much of the world economy to a halt.[10]

An important factor contributing to this performance is better supply chain management and corporate governance as part of the sustainable finance agenda. Companies often usually audit and report upon their supply chains, employee practices and internal logistics in order to have oversight, making changes to improve outcomes. One benefit of this is these firms are more resilient to an unexpected event such as pandemic, given they know more about the key components of and the supplier relationships for their business.

The internationalised nature of twenty first century business raises questions for many businesses around responsibility, ownership and outsourcing within their supply chains. An estimated 80% of global trade passes through supply chains and in many instances it is the supply chains, rather than the companies themselves, that contribute to the majority of a company's environmental and social footprints.

Where issues occur in a supply chain, it can often be the company at the end of the chain that receives the PR damage, particularly if they are a well-known brand. In recent years, journalists have uncovered practices such as modern slavery, paying under the minimum wage and using materials from ecologically unsound sources which have damaged brands in the public perception. Having clear sightlines down supply chains means that such issues are less likely to occur and if they do, swift action can be taken to remedy the situation.

As competitive pressures arise from new ESG related regulations such as workplace standards and environmental regulations, sustainable supply chain management is becoming more important for purchasers. By factoring in sustainable criteria upstream, where raw materials are managed, and downstream to the consumer, purchaser and suppliers throughout the supply chain can reduce their operational risks, maintain profitability and meet the growing demands for more sustainable products.

---

[10] https://www.ft.com/content/1cfb5e02-7ce1-4020-9c7c-624a3dd6ead9?shareType=nongift

Whilst this is possible for larger businesses, many SMEs lack the necessary finance and technical knowledge to improve management of sustainability within their supply chains. Lack of financing has led to some purchasers and brokers stepping in to provide short-term and pre-export financing to their suppliers. Financial institutions can also close the loop by offering financing packages designed to improve supplier business performance and credit risk. There has also been a rise in buyers offering tangible benefits such as discounted finance rates or payment terms to suppliers for meeting or committing to sustainability targets. Therefore, linking supply chain finance and sustainability incentivises supplies to meet specific sustainability targets. These incentives in turn create a transformation of business models to align their values with sustainability targets.

Case Study: HSBC Sustainable Supply Chains

In order to support the sustainable development of their clients' supply chains and foster new business development and the sustainable, international growth of SMEs, HSBC has formed partnerships with customers, NGOs and other key stakeholders to transform supply chains towards sustainability. They also ensure their community investment programmes support sustainability in sectors including clothing and palm oil.

To do this, HSBC has made four commitments to supporting greater sustainability and responsible business practices in companies' supply chains:

1. **Introducing supply chain solutions that embed sustainability**. HSBC will seek commercially viable propositions that support environmental and, where possible, ethical improvements in their clients' supply chains
2. **Supporting garment factories, tanneries and mills in mainland China, India, Vietnam and Bangladesh to shift towards sustainability**. HSBC will do this in partnership with charities including WWF, WaterAid and the Apparel Impact Institute
3. **Supporting the Roundtable on Sustainable Palm Oil and partnering with NGOs, industry bodies and customers to increase demand for certified, sustainable palm oil**. Led by their teams in Asia, HSBC will increase our support for research and collaboration to remove barriers to flows of certified sustainable palm oil and provide practical support to demonstrate what's possible in the shift to sustainability in the sector, in line with their no deforestation, peat or exploitation commitment.

Expanding their review of the ethical risk posed by their suppliers. All HSBC's suppliers of high-risk products and services, and those operating in high-risk locations, will be required to complete self-assessments of their policies and performances by the close of 2020.

Modern Slavery

Responsible businesses have long taken steps to prevent modern slavery and promote sustainable development. The CBI has advocated for the Modern Slavery Act (MSA) to continue to build upon the UN Guiding Principles on Business and Human Rights.

Driving compliance with the Modern Slavery and encouraging action that goes above and beyond minimum standards needs to be balanced with proportionality in what businesses are expected to report and in the practicality of what the government can enforce.

Exercising their responsibility to respect human rights is especially important where gaps in national legislation or its enforcement mean that businesses are not confident that

individual's human rights are protected. Where these gaps exist, business action can help to close them. Businesses must, and the vast majority do, play their part in the collective duty to tackle modern slavery. This responsibility starts with effective due diligence, which the MSA has successfully put on board agendas across the UK. As part of their responsibilities, business must limit and remedy modern slavery risks within their business and supply chain, which exist in domestic and international supply chains alike. The increased risk of modern slavery in ever more interconnected and global supply chains must be balanced with the fact that businesses do not have full control, either in commercial or legal terms, of their supply chain. As such, it is incumbent on businesses to manage the risk of complex chains through due diligence, good governance, constructive dialogue with suppliers and, when necessary, by notifying suppliers or state authorities of known or suspected exploitation. Where businesses do so, interconnected and global supply chains promote development outcomes, as recognised by the UN Global Compact on Sustainable Development Goals.

Responsible Business

Business in the Community defines a responsible business as one that puts creating healthy communities and a healthy environment at the centre of its strategy to achieve long-term value.

Case Study: The Good Business Charter

Modern business is realising a renewed sense of value. Firms are enjoying the rewards of embracing diversity and inclusion, while employees and customers are shifting their preferences towards working for or buying from firms that pay fair tax and wages, have proven ethical supply chains and a genuine sense of purpose. The Good Business Charter (GBC) is an initiative of the Good Business Foundation, a charity registered in England and Wales. The CBI (Confederation of British Industry) and the TUC (Trades Union Congress) both have trustee representation on the board of the Good Business Foundation to ensure that the voices of business and employees are heard. The GBC gives accreditation to businesses that promote and implement ethical practices. This is measured across 10 components:

1. Businesses pay staff the real living wage.
2. Businesses have a fair approach to zero hours contracts.
3. All penalties for legitimate sickness with consequences such as threat of termination must be banned.
4. All employers engage with worker representatives.
5. Businesses evidence how they monitor diversity and pay gaps.
6. Businesses demonstrate that they are committed to reducing their environmental impact and continually improving their environmental performance.
7. Businesses commit to paying their taxes.
8. Businesses publish their commitment to their customers on their website.
9. Businesses commit to the standards set out in the Ethical Trading Initiative Base Code
10. Businesses sign the government's Prompt Payment Code.

Businesses gain an added layer of trust to their proposition and a platform to promote their ethical activities. Hundreds of businesses are now GBC accredited and are in turn putting a spotlight on ethical business practices which improve the lives of all stakeholders whilst also creating a clear identifier for those looking to invest in sustainable businesses.

Case Study: Barclays Skills and Employability Programmes

Since 2013, the Barclays Digital Eagles have been empowering colleagues, customers and local communities to be more confident with technology and to move forward in the digital world. They host public Tea and Teach sessions providing tips and advice on online safety as well as Code Playground lessons for children to get grips with the basics of coding. They also offer the free online learning platform, Barclays' Digital Wings. Since the Covid-19 outbreak, the Digital Eagles have turned their Tea and Teach sessions into educational videos on the Barclays UK YouTube channel and have pledged to deliver digital skills training to 500 care homes nationwide by the end of the year. The Digital Eagles are just one example of the many initiatives run by Barclays.

Barclays LifeSkills has reached over 10 million people to help them develop the core transferrable skills needed for the world of work and the Connect with Work programme has placed over 3,000 people into work nationwide. In 2018, Barclays launched Building Thriving Local Economies, a five-year initiative that aims to understand the drivers and barriers to local economic success. The initiative will have pilots in four different parts of the country, where Barclays will conduct in-depth research as well as collaborate with local stakeholders to find out how these local economies can be better supported. These pilots will also receive intensive employment interventions and bespoke training delivered by the LifeSkills programme to help address local employment needs.

Case Study: Greggs Breakfast Clubs

For over 20 years the Greggs Foundation has been providing breakfasts for schoolchildren all over the UK. For Greggs, serving its community is something that has been a part of its sense of purpose for decades. School meals – particularly breakfasts – have been on the firm's agenda for over twenty years, since launching the Greggs Breakfast Club Programme in 1999 –through which it provides fresh bread to children in schools all over the country. Supported by the Greggs Foundation and a network of 98 partners, the programme is set up with one fundamental principle: that a child who is hungry is unlikely to learn. Today Greggs provides 542 schools currently with another 300-plus on the waiting list.

When the programme first began, the initial fund-raising came via charitable events and donations organised by employees. And while those elements still exist, the majority of that cost is now covered by the programme's supporters, which come from a broad range of British businesses and individuals.

That simplicity combined with the low cost for those supporting organisations means that it provides an interesting opportunity for a business that wants to start engaging with its local community.

"Building stronger communities is good for the long term. If it engages your staff in a way that they feel good about working for the business, they are more likely to be supportive of each other, and ultimately deliver great customer service. If you do that, you've got a strong business."

The important role of financial services in local communities

Households and SMEs are key to the success of local communities. Retail and savings banks are the natural partner to SMEs. These banks with extensive practical and day-to-day knowledge of local households and industry have the tools to provide SME lending and support these businesses in the transition to a more sustainable future. Due to their fundamental role in driving transition, households should be offered attractive solutions to

play their part in the sustainable transition. Green mortgages and green loans are example of where households can aid the green transition, but government and regulators should explore how this can be extended to the social transition. Policymakers should also adopt policies adapted to the specificities of those institutions that can support households and SMEs and support a diversified banking sector including a reasonable sense for the principle of proportionality. This is of most importance to regional and locally focused banks so that they can continue to provide vital financial services in communities.

The concept of 'build back better' is one already in use within communities. The government-backed reinsurance scheme Flood Re, which aims to give affordable flood cover to most homeowners, are in the process of implementing a system where when a loss occurs, insurers are permitted to reinstate and build back in a more resilient and sustainable way.

This concept could be used as the template for sustainable finance, whereby the building back process following the Covid-19 pandemic could be done to enhance and promote ESG factors, to increase resilience in the face of future economic challenges.

Chapter 2: Process

Operationalising sustainable finance principles within organisations through a usable taxonomy, definitions, incentives, and regulation

Although the momentum around sustainable finance is building and businesses are beginning to introduce new initiatives to expand their offering, individual actions are not sufficient to address the ESG challenges effectively.

A well-designed regulatory framework would reduce uncertainty, ensure effective comparisons can be made between firms and sectors, and allow competitive solutions to mobilise the transition towards sustainable finance. This framework should be complemented by industry incentives that support lending and investment into sustainable projects and mobilises both the supply and demand side of sustainable financing.

Additionally, clarity over disclosures and reporting would enable firms to make clear decisions on ESG investment and channel funds into the sustainable transition. Businesses should identify the best policies for their individual circumstances in achieving their ESG objectives This is a clear example of outcomes-based regulation working in practice.

Reporting should also follow a flexible approach. As technology develops quickly, rules-based regulation can be slow to react. As such, having a fixed taxonomy can pose a real challenge as what is not material today could be highly material tomorrow. For example, Aon's global risk survey in 2019[11] found that pandemic was only number 60 in terms of risk priorities that global business leaders have. The same survey in 2020 is likely to have that as a number one priority.

Sustainable finance embraces the entire universe of SRI, CSR, sustainable banking, investment, and corporate finance. The following definition attempts to portray the concept:

Sustainable finance deals with institutional policies, or systems of analysis, where all financial decisions aim at long- term integrated approaches which optimise a firm's social, environmental, and financial mission statement.[12]

Spotlight: The Impact Investing Institute

The Impact Investing Institute is an independent institute which aims to accelerate the growth and improve the effectiveness of the impact investing market in the UK and globally.

By emphasising awareness and education the institute aims at increasing competency in impact investing, so more people choose to save and invest with impact. The institute also highlights research as a key area of work as to ensure that stakeholders have the data available to support that awareness and understanding. Further, the Institute's focus on policy and advocacy aims at fostering market conditions that facilitate impact investing. In advocating for supportive market conditions, the Institute highlights that effective impact investing requires the harmonisation of global impact measures and reporting standards.

[11] https://www.aon.com/getmedia/8d5ad510-1ae5-4d2b-a3d0-e241181da882/2019-Aon-Global-Risk-Management-Survey-Report.aspx

[12] https://www.researchgate.net/publication/228239101_Sustainable_Finance_as_a_Connection_Between_Corporate_Social_Responsibility_and_Social_Responsible_Investing

The Institute actively engages across the spectrum of investors and investees – with individuals, asset owners, managers, and intermediaries and with businesses, social enterprises and other organisations committed to making a social impact. It works with national governments, regulators, and multilateral bodies to influence policy and advocate for impact investment.

Launched in 2019, the Institute is based in London and brings together two existing groups: The Implementation Taskforce for Growing a Culture of Social Impact Investing in the UK, led by Dame Elizabeth Corley, former CEO of Allianz Global Investors, and the UK National Advisory Board on impact investing, led by Sir Harvey McGrath, former Chair of Man Group and Prudential, and Chair of Big Society Capital.

It is part of a global network of national advisory boards, grouped together in the Global Steering Group for impact investment.

ESG disclosures

However, international standards that look at the whole ESG spectrum are lacking and it is important that standards for reporting environmental, social, and economic outcomes converge at a global level. A lack of global reporting standards makes it difficult for companies to measure and report their impact in a consistent and comparable way, and for investors and individuals to assess and compare this impact.

In September 2020, there was welcome news that four key players – Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Climate Disclosure Standards Board (CDSB) - agreed to work on a unified approach for ESG data. In December they reported on their progress towards a comprehensive corporate reporting system and shared insights on how his ambition can be achieved by building on frameworks and standards that already exist.

Whilst there is still some way to achieving convergence across these approaches to reporting standards, it is therefore crucial that regulators are adopting a comply or explain style approach and apply flexibility where possible. By allowing industry flexibility and enabling companies to begin to explore the organisations overall risk assessment in relation to ESG-related risks, it will help to shape this as an opportunity; identifying risks and shaping the narrative so that investors can make well-informed and sustainable decisions.

Workforce Disclosures

However, despite regulatory focus over recent years and increasing company and investor interest, there is a lack of consistent disclosure on workforce matters. Investors are increasingly seeking a more holistic understanding of companies' workforces as well as indications of whether the workforce is a strategic asset and how this relates to longer-term value creation.[18] To ensure better understanding and decision-making, businesses need better disclosures. If market participants do not disclose how the activities, they invest in contribute negatively or positively to ESG objectives, or if they use different metrics and criteria for determining the impact in their explanation of the degree of sustainability of an economic activity, investors will find it disproportionately burdensome to check and compare different financial products. Without clear, available data on what constitutes sustainable ESG investments, firms do not have scenarios or criteria to compare against, resulting in less well-informed decisions on sustainable investments. The

following case studies highlight a number of initiatives that are currently active at a global level.[13][14][15]

Case Study: IFRS Foundation – consultation on the establishment of a new sustainability standards board

The IFRS Foundation (International Financial Reporting Standards) was established to develop a single set of globally accepted accounting standards. However, through informal conversations with a wide variety of stakeholders the IFRS Foundation recognised a common message: there is an urgent need to improve the consistency and comparability in sustainability reporting.

Amidst heightened focus on environmental, social and governance matters, developments in sustainability reporting and increased calls for standardisation of such reporting, the Trustees of the IFRS Foundation have therefore published a Consultation Paper aimed at assessing demand for global sustainability standards and whether and to what extent the Foundation might contribute to the development of said standards.

Case Study: Global Reporting Initiative

The GRI (Global Reporting Initiative) is an independent, international organization that helps businesses and other organizations take responsibility for their impacts, by providing them with a global common language to communicate. The GRI Standards include a variety of requirements, recommendations aimed at advancing the practice of sustainability reporting and enabling organizations and their stakeholders to take action and make better decisions that create economic, environmental and social benefits for everyone.

Case Study: World Economic Forum and HRH Sustainable Markets Initiative

H.R.H. The Prince of Wales told the World Economic Forum in January of 2020 that the one critical lesson we must learn from the climate crisis "is that nature is not a separate asset class." Building upon this H.R.H. launched a Sustainable Markets Initiative (SMI) in collaboration with the World Economic Forum, with an aim of putting people and the planet at the forefront of global value creation and to generate long-term value by balancing natural, human, and financial capital.

As part of the SMI there are three proposed market transformations underpinning the transition to sustainable markets: a shift in corporate business models, an aligned and incentivised financial system and an enabling environment that attracts investment and incentivises action.

To bring about these three transitions H.R.H. and the World Economic Forum outline a 10-point Action plan, constituting what the SMI describes as a 'Marshall-like Plan for Nature, People and Planet'. The 10-points are as follows:

1. Make sustainable the default setting.
2. Outline pathways to decarbonise and achieve net zero.
3. Transition systems by creating new industries, products, and supply chains.
4. Identify game changing solutions.

---

[13] https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf?la=en

[14] http://sustainablefinanceblog.com/wp-content/uploads/2020/10/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf

[15] https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation

5. Reverse perverse incentives & improve incentives for sustainable alternatives.
6. Invest in nature.Invest in nature.
7. Adopt common metrics and standard.
8. Embedding positive & negative social & environmental costs into goods & services
9. Use platforms that can rapidly scale solutions and transform the marketplace.

Within the umbrella of this initiative, the IBC (International Business Council) and the World Economic Forum – in collaboration with Deloitte, EY, KPMG and PwC – produced a set of universal, material ESG metrics and recommended disclosures[1] that could be reflected in the annual reports of companies on a consistent basis across industry sectors. The wider objective is "for IBC companies to begin reporting collectively on this basis in an effort to encourage greater cooperation and alignment among existing standards as well as to catalyse progress towards a systemic solution, such as a generally accepted international accounting standard in this respect."[1]

The metrics used are organised into four pillars:

- Governance
  - Governing purpose
  - Quality of governing body
  - Stakeholder engagement
- Planet
  - Nature loss
  - Air pollution
  - Climate change
- People
  - Dignity and equality
  - Skills for the future
  - Health and well-being
- Prosperity
  - Employment and wealth generation
  - Community and social vitality
  - Innovation

The measurement gap and missed opportunities

Social businesses are businesses who follow viable economic models but whose ends are primarily social in nature. The profits that are made by these companies are then reinvested in order to promote development and combat social exclusion. Impact investing is a key example of a form of social business. Impact investing refers to investing one's savings into companies with a strong social or environmental impact. Sustainable investing is clearly on the rise; however, this trajectory will not continue unless the industry develops standardised measurements. 59% of impact investors set targets to measure their progress on social and/or environmental indicators and those investors looking for specific measurement indicators relating to ESG performance want to see an improvement of 20-30% through their sustainable investment.

There is a huge opportunity in mobilising private capital. Currently the wealth pool held by high-net-worth individuals in Singapore, Hong Kong, the UAE and UK stands at $5.4 trillion. Only 17% of this is channelled towards sustainable investing. In Asia 84% of investors engage in some form of sustainable investing and the funds allocated to sustainable investing could multiply: while these investors currently allocate 16% of their wealth to philanthropy, 80% of these investors are willing to shift some of this capital towards sustainable investing, if standardised impact measurement can be provided. Based on this trend, there is up to $870bn in potential fund flows from philanthropy towards sustainable investing.

Social Bonds

Philanthropy is not the only tool to channel sustainable investments. Increasingly, investors are adopting a wide range of sustainable investing solutions, from impact investing to ESG-friendly funds. Products such as green bonds have already started to break through the surface, but we are also now seeing a rise in sustainability and social bonds. In 2018, approximately $58.8 billion in social and sustainability bonds were issued.

Social Bonds are output-based instruments that raise funds for projects with positive social outcomes. These projects may either be existing or new projects but must have the proceeds exclusively applied to finance or refinance eligible social projects.

Case Study: Natwest Social Bond

NatWest Group is a financial services company, providing a wide range of products and services to personal, business, commercial, corporate and institutional customers.

In November 2019 NatWest Group issued the first exclusively Social Bond under the International Capital Markets Association's Social Bond Principles by any UK financial institution. The full proceeds of this inaugural Social Bond have been allocated to more than 2,750 loans to SMEs in some of the most deprived areas in the UK, according to unemployment claimant rates and gross value added per head.

Based on the allocation of the bond proceeds to this lending, NatWest Group estimates that the social bond has supported the creation of around6,900 jobs in some of the most deprived areas of the UK, as determined using a standardised input-output methodology. Key sectors include around1,800 jobs in Health and Social Work, 1,200 in Wholesale and Retail, and 1,200 in Professional, Scientific and Technical Activities, across Scotland, England, Wales and Northern Ireland.

NatWest Group is the largest supporter of UK businesses and it's Social Bond demonstrates the positive impact finance can have in helping to address regional inequality by championing the potential of the customers and communities we serve so they can recover, rebuild and, ultimately, thrive.

As new products arise, investors are increasingly turning to international standards to act as benchmarks for impact and creating more demand for sustainability bonds. Benchmarks such as the UN Sustainable Development Goals (SDGs) act as a solid guide for investors to understand how products play into the sustainability journey. Companies are increasingly looking to social assets (those assets with a positive social impact). Starbucks for example have recently raised a sustainable bond of $500 million to fund ethical coffee production. However, many investors have focused their attention to Asian markets where the market offers greater flexibility in choosing assets which allows for faster growth. Sustainable bonds enjoy more robust political support in these countries and China now relies on environmental projects to stimulate growth adding increasing importance to such bonds.

The UK government should therefore look to these markets where sustainable products are delivering positive outcomes. Government must work with business to ensure strong industry standards and benchmarks are created that are aligned with investor expectations. The creation of publicly available corporate sustainability benchmarks would allow a race to the top in sustainability performance.

Clarification of investor duties, duties of asset managers and ESG in investment advice

Another key barrier to sustainable finance is the lack of clarification around duties of investors and asset managers. All investors are bound by the responsibility to have a duty of care throughout their investment decisions. However, these duties can often be

interpreted differently from investor to investor. To address fully the changes around ESG advice, investors must be able to clearly factor ESG-related risks in decision-making.

These duties are the bedrock of UK investment industry and the way they are defined helps set the assumptions for appropriate investment behaviour. A clear definition would ensure that the relevance of ESG issues to investment decisions are considered in a systemic way as part of their duties therefore driving the UK's sustainable finance agenda throughout the industry. The CBI therefore recommend that government clarify rules around the duty of care a firm has so that investors factor in ESG considerations into decision making.

Case Study: Principles of Responsible Investment (PRI)

The Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. So far, PRI has attracted 7,000 corporate signatories in over 135 countries.

It works to understand the investment implications of ESG factors and supports its international network of investor signatories in incorporating these factors into their investment and ownership decisions. In this fiduciary role, the PRI states that it acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. In order to assist investors in choosing sustainable investments, the PRI has created six "principles for Responsible Investment". These principles form a voluntary set of investment principles that suggest possible actions for incorporating ESG issues into investment practice. Applying these Principles helps to align investors with broader objectives of society and so, where consistent with their fiduciary responsibilities, they commit to the following:

Principle 1: to incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: to be active owners and incorporate ESG issues into ownership policies and practices.

Principle 3: to seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: to promote acceptance and implementation of the Principles within the investment industry.

Principle 5: to work together to enhance our effectiveness in implementing the Principles.

Principle 6: to report on our activities and progress towards implementing the Principles.

The role that incentives could play

There are however limits to what the private sector can achieve on its own. There is clearly now a role for governments to start making finance truly sustainable through regulation of market externalities.

Government may also wish to consider how the tax system could in future be used to incentivise sustainable finance. Whilst the transition will be financed in large part by private investment, government policies could either threaten investments with government-induced risks or could create the framework for investment that sets out a range of pricing and regulatory instruments to encourage the sustainable transition. Policymakers need to provide the basis in order to foster solid plans that enable the move towards sustainable finance and incentives for banks, businesses and consumers to encourage sustainably oriented mind-sets. Government should work with regulators to ensure incentives are carefully designed to encourage long-term, sustainable investments while considering the

materialisation of the associated risks and their impact on the financial system. There are a number of incentives outlined below that should be explored by government.

Evolving capital requirements

There is an active debate around the role of capital requirements as a lever in the development of sustainable finance. It is paramount that financial stability is maintained but it is important to recognise in this paper this debate is occurring. For example, banks are required to hold sufficient capital buffers to cover for unexpected losses and remain solvent in a period of stress. The amount of this capital depends heavily on the credit risk related to individual bank's risk exposures – the riskier an exposure, the higher the risk weight (RW) of the asset and the amount of capital required. ESG-related risk will become a central part of banks' risk management frameworks and practices, however due to the complexities and relatively newness of ESG-related risks, banks are currently at different stages in terms of what tools they use to develop risk management and measurement of their ESG risks. This is as a result of a lack of data, the long-term nature of ESG risks and the lack of uniform expertise to assess future ESG risk profiles. Work by the Climate Financial Risk Forum, involving the Bank of England and the FCA, is already exploring climate stress testing and creating new methodologies to ensure there is sufficient data available. This debate is set to become increasingly important in the years ahead.

Incentivising remuneration

Remuneration is a common way of cementing values within an organisation. Building incentives into remuneration and linking parts of executive salaries and bonuses to ESG metrics could change the nature of discussions and add more incentives for top-level management to drive forward sustainable finance and outcomes.

Loyalty shares

Another way of shifting the sustainable finance debate to focus on the longer term would be to introduce loyalty shares as an additional reward to shareholders. If shareholders have held on to their shares for a loyalty period (for example five or ten years), it would incentivise institutional investors to pursue a buy-and-hold strategy. This approach is also a reward for investors efforts on engagement with the companies they invest in, especially on ESG and acts as a powerful force to steer companies towards sustainable business practices. Social externalities take place in the corporate sector, but the financial sector can pressure corporates to address these externalities effectively.

Fiscal incentives

One core function of fiscal policy is to encourage the market to provide goods or services to citizens that otherwise would not happen. In order to facilitate greater take-up of the provision of sustainable finance, government may also wish to consider how the tax system could in future be used to incentivise sustainable finance, promoting these products over existing investments making them much more attractive. Government should consider, in a post-Covid19 world, how incentives could both promote ESG as well as facilitate further investment to grow the economy, as well as the role they can play in the design of new products and green technologies and innovation in this space. More work will be needed to understand the return on investment that different incentives would have in order to target areas which deliver the best value for money for the taxpayer.

Developing a roadmap on data

Data is a fundamental ingredient in achieving sustainability in finance. Investors require confidence in the quality and robustness of the data they use in order to inform decisions. However, data alone does not hold the key to unlocking sustainable finance. Context is needed to be layered upon raw data in order to turn this into valuable intelligence which can lead to impactful action.

Requirements upon the accurate reporting of financial data are well established and highly scrutinised by regulators. The same cannot be said of data relating to sustainability. The comparatively little volume of data collected is often unstructured and not easily comparable. It also does not currently attract the same degree of scrutiny from regulators.

In order to transition to a regime which allows meaningful comparisons of data relating to corporates which drives sustainable investment decisions, a roadmap is required. This would provide a route of continuous improvement to a position where ESG information is treated by regulators in a similar way to financial information.

The CBI recommends that the PRA and FCA work together to develop a roadmap for data which supports sustainable investment decisions.

Harnessing technology as a driver

Digitalisation has become an integral part of the new economic order. Consumers have seized the opportunities that this has brought including a broader choice of products, easier access to information and easier access to decision-makers. Harnessing the power of technology as a driver to aiding industry transition to a more sustainable way of working is vital.

Technology offers key opportunities to accelerate financing the sustainable transition and should be exploited by policymakers and regulators to ensure the control is placed firmly into the hands of the consumers.

Technology and digitalisation can increase the quality of user-friendliness of relevant financial information; reduce financial intermediation that subtracts consumer value; and presents consumers with platforms for collective action such as crowdfunding, shareholder actions.[16] Furthermore, as fintech firms tend to not have to contend with complex legacy systems and processes, they are able to introduce innovations that promote new and sustainable business models and working practices more quickly than larger and more established players. This can be a key tool to overcome many barriers to sustainable finance. For example, technology has the ability to drive and promote ESG literacy. It is important that this is embedded among all stakeholders and especially SMEs have access to literacy programmes on ESG-related investments.

New technologies could also make it much easier to set up and manage dedicated supply chain finance mechanisms. For example, smart contracts could self-execute, as the terms of the agreement between buyers and sellers is written directly into lines of code.[31] This could pave the way for more effective, secure and sustainable supply chain finance solutions, helping to drive uptake and expansion.

Financial inclusion should be expanded, especially into savings accounts and domestic savings should be mobilised into long-term investments. Technology enables improved financial inclusion and help savers engage in the sustainable finance area through their savings and mortgages. For example, the Big Exchange is a blockchain-based mobile-first platform that offers a new approach to banking, saving and investing. Mastercard has also collaborated with Credit Unions to help them digitise, alongside the Post Office Card Account team developing pre-paid cards that go beyond Basic Bank Accounts. Prepaid technology provides a route into the financial system without the need to open a savings account or pass a credit check. For many people struggling with problem debt this can provide a vital way to protect and manage their everyday finances.

---

[16] https://www.fca.org.uk/news/press-releases/fca-announces-proposals-improve-climate-related-disclosures-listed-companies

Ensuring data quality and integrity is a key facilitator to sustainable finance and the ability for investors to easily and meaningfully compare one firm with another is crucial to its success. Achieving success is dependent upon the quality of data in place and the standards that it conforms to – enabling for it be comparable. There is regulatory intervention which tries to achieve this, through the Non-Financial Reporting Directive in the EU and by the FCA following the Taskforce of Climate-related Financial Disclosures[17], however this work relates mostly to environmental metrics and it is clear that more work will be needed by both business and regulators to drive data standards across all areas of ESG.

Case Study: World Wide Generation

World Wide Generation (WWG), is a sustainability fintech accelerating the financing and delivery of global Net Zero targets and the SDGs having developed the world's first interoperable data platform called G17Eco, underpinned by Distributed Ledger Technology (DLT).

G17Eco is a combined monitoring and marketplace platform, and at the core of this cloud application are proprietary Data Bots which collect, process and disseminate data between all stakeholders e.g. Companies, Assurers, Rating Agencies and Investors. To urgently curb global warming, a holistic approach is needed where, Social, Economic and Environmental metrics are taken into account.

Therefore, while G17Eco is mapped to all the globally recognized ESG frameworks, the universal backbone to which the G17 digital taxonomy is multilaterally mapped to are the SDGs. G17Eco is the first platform with a ‘theory of change’ embedded into the system to algorithmically calculate SDG impact in real-time at Organizational, National and Global levels. WWG is the technology partner for a UK Government and City of London global strategy called the Sustainable Development Capital Initiative.

Case Study: LSEG ESG benchmark and disclosure

LSEG have created an industry-wide assessment tool that allows individual firms to estimate their ESG Disclosure Score and compare their current performance with benchmarks for their specific sectors. Compiling information relating to a firms’ carbon emissions, energy usage, number of females on boards and charitable donations they create an ESG Disclosure Score as a percentage figure that represents the aggregated level of disclosure against quantitative ESG data points drawn from global standards, that are considered to be most relevant for the industry.

[17] https://www.fca.org.uk/news/press-releases/fca-announces-proposals-improve-climate-related-disclosures-listed-companies

Case Study: Scope

The European rating agency Scope has developed an ESG rating system which offers an objective and transparent standard for measuring corporate ESG impacts. Crucially, this approach incorporates analyses of global supply chains. Rather than rely on data disclosed by companies, which rarely have information beyond the first line of suppliers, Scope uses macroeconomic data from recognised international sources to create a statistical proxy of a company's harmful environmental and social impacts, which are then converted into a monetary value, making the comparisons easy.

Take, for example, the ESG snapshot of Johnson Matthey, the British chemicals company, that creates external costs of GBP 1.1bn. These costs are just 10% of the company's revenue, hence Johnson Matthey's good overall score of 7.8 out of 10. Johnson Matthey's supply chain generates only 44% of the company's ESG impacts, according to Scope's model, whereas the supply chain of a typical chemicals company is responsible for 72% of value creation. Therefore, it can be derived that this British company relies relatively heavily on its own sites which it manages well.

Reporting for larger firms will add a burden, but that burden can often be managed well through compliance teams or staff whose role it is to measure ESG-related activities. The same cannot be said for small businesses and where the cumulative burden could be too onerous to bear and therefore it could create barriers for SMES to grow.

As such, a de minimis threshold should be established to ensure that the burden on business is not disproportionate to their size and/or impact.

Chapter 3: Purpose

Defining who owns the sustainable finance purpose within firms and the required governance framework. The purpose of sustainable finance is to ensure finance can be a lever for sustainable outcomes

The purpose of sustainable finance is to ensure finance can be a lever for sustainable outcomes, with organisations increasingly setting out their own vision of how they will make this impact. A key question in these debates as organisations state their purpose is who owns this agenda, who is responsible for delivering it within the organisation. In approaching who owns purpose, governance is a critical concern with Non-Executive Directors in particular increasingly becoming responsible for ESG. Good governance is instrumental to driving the change in how businesses perceive the importance of ESG and therefore can be a main driver of a sustainable economy.

The UK has led the way in setting high standards for oversight by shareholders, laying the foundations to attract public companies and investor capital. The introduction of the Stewardship Code in 2010 firmly placed the UK as a world leader for sound stewardship and fuelled many countries to launch similar initiatives. One of the key successes of the UK Stewardship code is the apply and explain principles for asset managers and asset owners. As there is no rigid single approach to effective stewardship, this approach allows organisations to meet the expectations of the code in a manner well-aligned with their own business model and strategy. Industry has welcomed this and continues to ask for flexibility. This will then be built into their own business models to ensure accountability and trust of consumers.

Building on the 2010 Stewardship Code, private businesses in the UK have also been bound by the UK's Corporate Governance Code since December 2018. Good corporate governance makes successful businesses and it is vital that private companies are held to the same high standards as their public-owned counterparts. However, when it comes to ESG, governance codes and standards risk missing the mark.

The enabling role of the UK Corporate Governance Code in sustainable finance

The UK Corporate Governance Code 2018 promotes the importance of establishing a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity[32]. In the FRC's 2019 Annual Review of the UK Corporate Governance Code, they found that while the need for this broader approach is generally accepted, reporting on its practical aspects needs much further development to demonstrate its effectiveness.

The '*comply or supply'* approach taken by the FRC allows companies the flexibility to provide clear and meaningful explanations when they choose not to comply with one of the provisions of the Code, so that their shareholders can understand the reasons for doing so and judge whether they are content with the approach the company has taken. Last year, the FRC has also strengthened its Stewardship Code, which was last developed in 2012, aiming to establish a benchmark for stewardship in investment which creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The FRC will shortly be transitioning to the Audit Reporting and Governance Authority (ARGA), a new regulator which will replace the role of the FRC. The regulator has to its credit, been engaging with businesses and stakeholders to understand their views on what should be within their regulatory scope. The development of a new regulator brings about

a new opportunity in helping to shape the regulator as it is established, to ensure that it is fit for the future.

The FRC/ARGA should be supported to ensure it is able to make recommendations in relation to governance and this developing agenda. Businesses would benefit from clear guidance templates to enable informed decisions to be made. The CBI therefore believes that there is a role for an expanded FRC as it becomes the Audit, Reporting and Governance Authority to cover ESG issues and feed into a revised UK Corporate Governance Code.

The CBI recommend that the FRC Lab, an initiative that brings together companies and investors to improve the effectiveness of corporate reporting, to considers working on the ways in which social considerations are approached as part of the code and consider whether further powers are needed to assess compliance with them to support the development of sustainable finance.

However, the UK's governance codes are now in need of a shake-up or the UK risks losing its edge as a world leader. The FRC recommended that consistent with the UK Corporate Governance Code's focus on emerging risks, and after considering the likely consequences, companies should, where relevant, report on the effects of climate change on their business (both direct and indirect).[33] Such reporting should cover how the Board has taken account of the resilience of the company's business model and its risks, uncertainties and viability in the immediate and longer term in light of climate change.

The CBI recommends that these suggestions are considered by the FRC and expanded to develop clearer definitions in future on how to report against the full ESG spectrum.

Reporting

The pressure for companies to report more on workforce matters is not slowing. Culture, employment engagement and workforce environment are the key areas raised as important for investors. Investors interests in firms approaches to workforce-related issues have been strengthened by further regulatory changes. These include changes to the UK Corporate Governance Code in 2018 as well as reporting requirements on CEO and employee pay ratios and a requirement to report on how directors have had responded to the interests of a company's employees, in carrying out their duty to act in a way that promotes the success of the company (their section 172 duty). The duty of directors extends to requiring them to have regard to stakeholders like employees, customers, community and the environment. Investors themselves are also under pressure to report more fully on ESG issues under new FCA rules as a result of the Shareholder Rights Directive and the revised UK Stewardship Code. Mandates from asset owners are also increasingly referring to such matters, which is another reason for investor calls for more reporting in this area.

The corporate governance framework should be reviewed and refreshed in light of the growing need for companies to incorporate ESG considerations in their reporting. The government should step in and set the ESG standards businesses should adhere to. It should work closely with the FRC to ensure recommendations are in line with the UK's Corporate Governance Code.

ESG in the boardroom

For companies to balance their environmental and social risks, obligations and opportunities, sustainability needs to move from being simply an add-on to an ingrained way of day-to-day business. Firms are starting to address these changes and business leaders are starting to recognise that organisational culture plays a fundamental part in the shift towards sustainability. However, despite ESG reporting placing the onus on sustainability as the way to do business, many leaders lack a clear understanding of how to embed ESG into the day-to-day organisational decisions and processes. Leaders need to understand how to sustain sustainability in the long-term.

Many studies have found that getting ESG right profits companies in the long run, leading to stronger economies and societal benefits. Forward thinking in the boardroom is shifting the dial towards integrating ESG considerations firmly within business models and seizing the opportunities sustainability can bring. In a sense, a new narrative needs to be created for business to counter the perception that a director's only duty of care is to shareholders. There is now a public interest responsibility to make businesses sustainable, recognised by the likes of the Business roundtable which in 2019 redefined the Corporation as not just to serve shareholders but all stakeholders. To do this, board time must be allocated to discuss ESG strategies.

Often, ESG responsibilities can fall upon non-executive Directors as bandwidth at an executive level can often be filled with other corporate functions. Non-executives have a strong role to play, but there must also be responsibility and accountability at the executive level in order for the firm to have sustainability near to the heart of the corporate strategy. Support should be given to non-executive directors, through training and regulators recognising the value and role of this, so that they can fulfil their role effectively, but also help to develop the role that the wider Board are required to play in order to further grow a sustainable agenda. This includes risk identification and management as well as transparency through reporting.

Engagement with clients is another important factor that should be considered as the wider public become more aware and mindful of sustainability. Often, this is achieved through annual report and accounts or other corporate documents, but firms can benefit from a growing sense of the importance of sustainability by using it in their sales pitch, demonstrating the values they have and the vision they are following.

But the onus does not solely like with the board. Executive Leadership and non-boards directors also have a role to play here.

The CBI recommends that there should be more accessible training for non-executive directors to ensure that they fully understand the importance of ESG and the practical steps needed to be taken to ensure sound implementation of ESG considerations.

Enablers are key to getting governance right. Sustainable finance must be ingrained into internal and staff training. It must also be promoted through external thought leadership through engagement with external stakeholder.

Case Study: Fund Board Council

Fund Boards Council is a specialist membership organisation set up to create insight and provide best practice thought leadership on corporate governance for mutual fund boards. They work with authorised fund managers and independent Non-Executive Directors (iNEDs) to help them navigate the complexities of fund board governance, providing opportunities to hear from and network with industry experts, not just from the UK asset management industry but from other major international mutual fund markets facing or who have faced similar challenges.

Responsible Investing

Investing responsibly means business taking a clear approach to its own investments that take account of or drive forward ESG issues. An example of this could be firms addressing executive pay and ensuring executive compensation packages are proportionate, aligned with business values and linked to ESG targets. It also means managing supply chain responsibility and having appropriate measures in place to drive ongoing improvements in ethical and sustainability performance.

Yet to do all of this, it is important that the parameters of shareholder responsibility are defined.

Case Study: UK Social Impact Investment Market

According to figures released by social investor Big Society Capital (BSC), the social impact market in the UK grew to more than £5bn in 2019. This growth isn't surprising considering the fact that the social impact market has grown sixfold in the past eight years, with at least 30% growth each year since the end of 2015.

The growth of the social impact market reflects important trends, highlighting the ever-increasing amounts of capital becoming available to organisations who place an emphasis on ESG.

"*The market's impressive growth is being driven in part by increasing awareness of and confidence in taking on investment by social enterprises and charities. We have also seen growing interest in investing with purpose, which has prompted fund managers to create new and innovative products. This increase in products and capital has created more options for both investees and investors – helping capital to flow where it is most needed."* - ***Jeremy Rogers, Chief Investment Officer, Big Society Capital***

Investor information

Investors are constantly trying to seek information on which companies that can support the development of its workforce in a sustainable, long-term way. As such, investors seek greater insight into issues such as how boards consider and assess the topic of the workforce; what the workforce is and how it contributes to the success of the business model; whether it is regarded as a strategic asset; how the workforce and strategy interlink. They also want to be aware of the risks and opportunities related to the workforce and how the company is responding to these; how the company measures the contribution of the workforce and how it has taken into account the workforce's views. To back this up, investors need data and reliable, transparent metrics. They overwhelmingly support more detailed, transparent disclosure of workforce matters[41]. These issues highlight the breadth and complexity of the information needed from financial institutions and businesses. As investor expectations grow and new regulatory changes are implemented, even further development will be necessary.

Case Study: Schroders Responsible Investing

Schroders Responsible Investment (RI) offers its clients the opportunity to make investments in assets they believe have the ability to enhance their long-term performance using Environmental, Social and Governance (ESG) screens. Now, more so than ever before, the performance of markets and assets are being driven by their credibility and legitimacy - Schroders' RI approach aims to deliver risk-related benchmark-beating returns by investing in assets that take active management of ESG issues.

Schroders' RI screen covers equities, fixed income and property and through engagement, stewardship and integration, Schroders believes that its approach to responsible investment is in compliance with the UN Principles for Responsible Investment.

International comparators

There have been a range of developments in the EU, including work on a sustainable finance taxonomy, the review of Non-Financial Reporting Directive, and the Green Deal which all relate to this agenda. The European Commission has looked to present a Renewed Sustainable Finance Strategy in the autumn of 2020, the CBI has been part of Business Europe's Sustainable Finance Taskforce and urged policymakers to continue to strive for clear definitions around sustainable investments and to address the importance of the whole ESG spectrum when discussing sustainability. It is clear the Commission is keeping sustainable finance at the top of its agenda particularly in light of the European recovery post-Covid, therefore the Renewed Strategy will need to respond to the dual objective of mobilising more investments towards the EU's sustainability goals and of enabling the short and medium-term recovery of the whole European economy. If well-designed and accompanied by the right tools and frameworks, the renewed strategy can create an enabling agenda that supports European businesses in their transformation towards climate neutrality, sustainable growth, job creation and prosperity. The UK before its departure from the European Union was a major driver of this work, it must continue to do so through and beyond Brexit. Government and regulators need to work better with the global financial services industry to avoid unintended consequences of regulation, continuing to shape the development of sustainable finance worldwide.

A flexible and just policy framework to allow a continuous flow of investments into sustainable projects, and to sustainably transform the economy is vital. The UK should review how such comparable international work interacts with regulation and its implications for the real economy, applying lessons to the UK context but also establishing how best it can support UK businesses with global supply chains as they engage with these new frameworks.

Appendix 1 – An Update on Developments around Environment – The E of ESG

Building upon the CBI's first green finance paper

In 2019, the CBI published its paper on green finance setting out the issues and possible solutions to facilitate its uptake.

The CBI's Green Finance Paper explored the environmental aspect of ESG. It set out how many businesses and financial institutions have seized the opportunities green finance can bring, however there are others who are yet to embrace it fully. Whether this is as a result of a lack of knowledge or awareness, limited access to clear data and information, or an inadequate policy environment that is not supplying the right access to green finance, there is clearly a role for policymakers to play to ensure that all businesses can access green finance and can fund their activities in a sustainable manner effectively.

Summary of key recommendations

The urgency of climate change is clear however policy must be designed that is proportionate and effective in supporting the transition to a decarbonised economy through
the development of green finance. To support this transition most effectively and promote
green finance across the whole economy, the CBI recommends:

- Smarter regulation that provides the long-term clarity needed to support the move to net-zero.
- More clarity on data and climate-related disclosures.
- A long-term approach to developing a usable taxonomy that keeps flexibility and dynamism at its core.
- Effective incentives to encourage industry to move towards green financing. Clarification of Directors' duty of care in relation to climate-related risk.

Spotlight: Goal 13 Impact Platform

In the lead up to COP26, the CBI is developing the *Goal 13 Impact Platform* with Deloitte, Chapter Zero, Accounting for Sustainability, Dell and the Met Office. This is an open access website for climate action and has been set up to facilitate learning and collaboration between companies as they address the transition to a low-carbon economy. It directly supports the CBI's COP26 objectives to showcase company progress, galvanise further action and influence domestic and international policy.

The platform captures insights on how climate change is impacting corporate priorities, approaches to capital allocation and major project portfolios. This is broken down into climate targets, drivers of change such as investor expectations, governance models, initiatives and their commercial impact, barriers to progress and lessons learned. It will also serve as an opportunity to 'matchmake' organisations who are working on similar initiatives and challenges.

To date, company-specific information has been collected through 170 interviews with leaders from organisations of all sizes and sectors. In September, we launched a report with the emerging findings, including:
43% of the companies interviewed have already set net zero or carbon neutral targets

- Companies are taking steps to integrate their climate programmes with their corporate strategy, performance and culture; however, 65% still appear to be in the early stages of that journey
- Many climate initiatives still focus on a company's own operations, but leaders are increasingly considering new products & services as well as improving their supply chain engagement

- Climate action is impacting investment decision-making for more than 80% of companies, and more than 70% of initiatives have an attributable payback period.
- 45% of respondents cite uncertainty around policy and regulation as a significant barrier to progress; companies are seeking a more coordinated, cross-sector approach to enable the effective deployment of technology and infrastructure.

Significant Developments in the UK

In the Chancellor's Statement to the House of Commons on 9th November he made two significant announcements on green finance policy that paved the latest wave of government announcements around the role of green finance within the Build Back Better agenda.

The Chancellor announced the government's intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023. The UK is the first G20 nation to make this commitment. The Financial Stability Board established the Taskforce on Climate-related Financial Disclosures to develop recommendations for more effective disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The Task Force consists of 31 members from across the G20, representing both preparers and users of financial disclosures and is chaired by Michael R. Bloomberg, founder of Bloomberg L.P.

He also briefed parliament of the intention to issue the UK's first ever sovereign green bond in 2021, subject to market conditions.

On 18th November, the Prime Minister's announced the UK's Green Industrial Strategy – a ten point plan to mobilise £12 billion of government investment, and potentially 3 times as much from the private sector, to create and support up to 250,000 green jobs.

This was further endorsed by the announcement in December 2020 by the Prime Minister of a new ambitious target to reduce the UK's emissions by at least 68% by 2030. The UK has now committed to reducing emissions by the fastest rate of any

Spotlight: The Green Finance Institute

The Green Finance Institute (GFI) focuses on overcoming barriers to investment in the sectors that need to be financed to help the transition to an inclusive, net-zero carbon and resilient economy. The GFI has implemented several initiatives and coalitions in an effort to address these barriers to investment.

For example, The Coalition for the Energy Efficiency of Building (CEEB) was established by the GFI in collaboration with E3G, in December of 2019, and produced its well-received phase-one report in May 2020. The coalition is made up of over 150 members and has a remit to develop the market for financing a net-zero built environment in the UK.

This initiative does not stand alone, the GFI is also focusing on the decarbonisation of transport, creating more resilient and sustainable food systems as well as supporting the UK government's push to develop potentially transformative funding mechanisms aimed at helping realise the government's 25-year environment plan.

The work the GFI is doing is essential in connecting both the public and private sector to unlock and identify barriers preventing capital from being deployed at scale and pace towards ESG positive outcomes.

Case Study: The Just Transition project

The Grantham Institute instigated a project on delivering a just transition to a green economy and widened the scope to cover the role of banks, with a specific focus on UK banks, through the Banking on a Just Transition project in partnership with UK Finance.

The research, due to report in 2020, considered the following research questions:

- **Policy frameworks:** What are the key climate and economic policies needed to ensure that banks can support scaled-up action in the real economy with far greater urgency?
- **Strategic purpose:** How can banks and the banking system respond to the social risks and opportunities that flow from the transition to a net-zero economy in terms of strategic purpose?
- **Market demand:** How can banks and other finance providers work with households, enterprises and public authorities to design the sustainable financial products that will be needed?
- **Public and blended finance:** What is the best mix between bank finance, public finance and impact investment, particularly to mitigate risk and ensure inclusion in the transition?
- **Regional dynamics:** How can banking support place-based climate action, responding to local needs, particularly in a regionally imbalanced economy such as the UK?
- **Financial regulation:** What is the role that financial regulators can play in overseeing climate risks and the broader social implications of the transition?

The just transition relates closely to the work of sustainable finance, how people can own and drive this agenda forward. Business, governments and regulators should view action through the prism of a just transition to ensure that it is factored in at every stage of the journey to sustainable finance.

[18][19]

[18] https://www.fsb-tcfd.org/
[19] ttps://www.lse.ac.uk/granthaminstitute/banking-just-transition/

References

1. https://www.consilium.europa.eu/en/press/press-releases/2020/10/09/covid-19-council-agrees-its-position-on-the-recovery-and-resilience-facility/
2. https://www.unpri.org/
3. Ibid
4. https://www.ft.com/content/f776ea60-2b84-4b72-9765-2c084bff6e32
5. https://www.forbes.com/sites/solitairetownsend/2018/11/21/consumers-want-you-to-help-them-make-a-difference/#7fd3608f6954
6. Ibid
7. Ibid
8. https://www.pwc.co.uk/financial-services/assets/pdf/pwc-diversity-is-the-solution.pdf
9. Ibid
10. https://www.ft.com/content/1cfb5e02-7ce1-4020-9c7c-624a3dd6ead9?shareType=nongift
11. https://www.aon.com/getmedia/8d5ad510-1ae5-4d2b-a3d0-e241181da882/2019-Aon-Global-Risk-Management-Survey-Report.aspx
12. https://www.researchgate.net/publication/228239101_Sustainable_Finance_as_a_Connection_Between_Corporate_Social_Responsibility_and_Social_Responsible_Investing
13. https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf?la=en
14. http://sustainablefinanceblog.com/wp-content/uploads/2020/10/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf
15. https://www.weforum.org/whitepapers/toward-common-metrics-and-consistent-reporting-of-sustainable-value-creation
16. https://www.fca.org.uk/news/press-releases/fca-announces-proposals-improve-climate-related-disclosures-listed-companies
17. Ibid
18. https://www.fsb-tcfd.org/
19. ttps://www.lse.ac.uk/granthaminstitute/banking-just-transition/

January 2021
© Copyright CBI 2021
The content may not be copied, distributed, reported or dealt with in whole or in part without prior consent of the CBI.

Produced by Andy Thornley and the Financial Services Policy Team.
To share your views on this topic or ask us a question, contact:

Chris Wilford
Head of Financial Services Policy
chris.wilford@cbi.org.uk