UNEP's Finance Initiative: Catalyst for Introspection and Progress: A Commentary on Yuki Yasui's paper: "Leveraging Strengths: An Analysis of the Partners and Partnership of the United Nations Environment Program's Finance Initiative"

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UNEP's Finance Initiative: Catalyst for Introspection and Progress

Ms. Yasui's paper provides a useful history and a timely reminder of the considerable progress that the field of sustainable finance has made in the 20 years since the historic Earth Summit in Rio de Janeiro in 1992. Without such a history, it would be too easy to focus on the deficiencies of the current situation and consider the glass to be 70% empty. Ms. Yasui not only helpfully reminds us that the glass is at least 30% full, but also that it has achieved this state in the remarkably short space of 20 years. Global consciousness shifts, after all, do not happen overnight.

As a participant in the aforementioned summit, I have a relatively long history as an observer (and occasional critic) of the world of sustainable finance. As such, I do not believe it would be an exaggeration to say that, before UNEP FI, the field essentially did not exist. Anyone even tangentially involved in it today owes a real intellectual debt to UNEP FI, its staff, and its nearly 200 institutional partners

Perhaps a bit of history will help put the UNEP FI contribution into better context. At the Earth Summit, the principal private sector player was an organization that is now known as the World Business Council for Sustainable Development (WBCSD. Full disclosure: the author of this commentary was a director of said Council). The WBCSD at that time included more than 30 global industrial titans, from the CEOs of DuPont and Mitsubishi to India's legendary Ratan Tata. Despite this august company, the WBCSD did not include a single banker or financier! It was not for lack of trying, either: the Council's multibillionaire chairman, Stefan Schmidheiny, had personally entreated at least three of the chairmen of what were then the world's ten leading banks. (Several of these banks no longer exist, perhaps for reasons that are about to become clear).

In my limited experience, any time a global bank chairman receives a request from a multibillionaire, he (they were all men) is at least inclined to give it a sympathetic hearing. And when that request comes complete with an opportunity to hobnob for 18 months with 30 of the world's leading industrialists (read: prospective banking clients), the banker becomes positively enraptured. Yet in this case, the WBCSD chairman was turned down flat by all three bank chairmen. How can that possibly be? Well, circa 1990, conventional wisdom in the world of finance held that sustainability issues and challenges were the proper and exclusive province of governments and NGOs, but emphatically not of financiers. The chairman of one of the world's leading banks put the case succinctly: "We don't cut down any trees at the bank; this has nothing to do with us!" 'Nuff said!

In short, when UNEP FI came into existence, 99% of what was intended to be its target audience couldn't even spell the word *sustainability*, much less understand or practice it. UNEP FI was starting from square one. Ms. Yasui argues correctly that the three most important legacies of UNEP FI's work to date are the following:

- Initiating and publishing the Materiality Series, an impressive collection of research and thought pieces that make a convincing case for the competitive and financial relevancy of sustainability or ESG (environmental, social, and governance) issues. Much of the credibility of the reports flows from their authorship by some of the world's leading financial institutions.

- Commissioning and publishing the "Freshfields Report," a groundbreaking piece of legal analysis by one of the world's leading international law firms. The report argued forcefully that a modernized version of the notion of fiduciary responsibility must be sufficiently capacious to embrace sustainability. Prior to the report (and still in many quarters today), sustainability deniers took comfort from and refuge behind the view that the imperatives of fiduciary responsibility actually *precluded* an explicit consideration of sustainability factors in investment decision making. (I am not making this up.)

- Helping catalyze and institutionalize the UN Principles for Responsible Investment (PRI), an extraordinarily ambitious collective initiative that today draws together roughly 900 asset owners and managers, with combined assets under management of over $20 trillion.

Taken together, these and other UNEP FI initiatives have now created an intellectual foundation and an organizational architecture that should be sufficiently robust to lead us to the sustainability Promised Land. The fact that it has not yet done so cannot, in my view, fairly be laid at UNEP FI's door. Herding cats is not an easy undertaking, and one can indeed lead horses directly to water, but making them drink is another matter altogether.

Ms. Yasui's organizational modesty undoubtedly precludes her from making the case herself, but I suffer from no similar impediment, so I shall do it for her: in my humble opinion, UNEP FI has been the single most important organizational catalyst in driving forward the sustainable finance agenda to the point where we find it today. Unit head Paul Clements-Hunt and his exceptionally talented and committed young team have overcome formidable institutional barriers and inertia, both outside and within the UN system, and they have made an appreciable difference. I shudder to think about where we'd be today without their efforts.

But where do we go from here?

Despite UNEP FI's considerable contributions, we have yet to arrive at sustainability nirvana, and a constellation of global megatrends is militating powerfully against our ever being able to do so. What's past truly is prologue here; the real question is, what does UNEP FI—and the rest of us—do next? Let's start with a quick review of where we sit today. On the positive side of the ledger:

- For those who wish to examine and consider it carefully, we now have an extensive body of both academic and empirical evidence to buttress the sustainable finance thesis.

- There is now a nontrivial (if wildly exaggerated) body of assets currently being managed according to one version or another of sustainability principles.

- Significant progress has been made in both legitimizing and mainstreaming sustainable finance.

So far, so good. But let's examine the liability side of the sustainable finance balance sheet. A number of serious problems and challenges still remain:

- Greenwashing and organizational hypocrisy remain rampant, aided and abetted by a broad conspiracy of silence that resolutely refuses to call a spade a spade. Progress reports from many PRI signatories, for example, are disingenuous and uncritical to the point of mendacity. This is hardly a solid basis for continuous improvement going forward.

- Despite the considerable weight of both evidence and sheer logic, 99% of senior investment professionals remain unconvinced about the *investment* merits of incorporating sustainability considerations. Interestingly enough, Ms. Yasui's paper includes a table from a study examining investors' motivations for embracing sustainability. It is telling that "improving investment performance" ranked no better than eighth, with well under 50% of the number citing "social responsibility." And, worse still, the survey was taken in what is arguably the most advanced, sophisticated region in the world in terms of sustainable finance. In short, pious rhetoric to the contrary, real investors simply do not, in their hearts, believe the sustainable investment thesis.

- The investment food chain is badly broken and perverted, with trustees and fiduciaries far too frequently playing the role of the dog that is being wagged vigorously by its tail—the investment managers and consultants.

- Given the preceding three points, it is not surprising that both the art and the science of ESG integration remain in their infancy—notwithstanding the preposterous claims by the vast majority of PRI signatories that they're already practicing it.

Just to be clear: none of the foregoing negatives is UNEP FI's fault; indeed it has battled valiantly against all of them. But we are where we are today, and it ain't pretty, folks! I would have thoroughly enjoyed Ms. Yasui's reflections on how to best confront these four challenges (and others), but I presume that such reflections would not have been conducive to her career advancement within the UN system. Nonetheless, she has given us a valuable history lesson and an important reminder that, whatever the obstacles, profound social and organizational change *can* indeed happen—and that the odds of achieving it are substantially improved when it occurs through collaborative, multi-stakeholder action.

Biography

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