BUILDING BRIDGES

Alignining finance with sustainability

Euilding Bridges





Building Bridges to leverage the power of finance for sustainability.

Building Bridges is a joint initiative launched in 2019 to create a link between international organizations on Geneva's right bank and financial institutions on its left bank. Through this bridge, the initiative aims to accelerate the transition to a global economic model aligned with the Sustainable Development Goals (SDGs).

Building Bridges' ambition is to leverage the power of finance and Switzerland's unique ecosystem to preserve and restore the planet's delicate balance. Throughout the years, Building Bridges has been serving as an international hub for sustainable finance and the SDGs.

More than an event, Building Bridges aims to stimulate international debate and shape the global sustainable finance agenda. By creating synergies between diverse actors and sectors, Building Bridges facilitates the emergence of concrete solutions to mobilize capital flows toward sustainable and inclusive projects.

Missions

- Accelerating the transition to a global economic model aligned with the needs of a sustainable and just society
- Connecting members from the finance, government, and sustainable development community
- Providing a forum for discussion and cooperation for the Global North and South
- Identifying, advocating, and contributing to the implementation of concrete actions
- Shaping the global sustainable finance agenda



A collaborative effort

Building Bridges was founded by Swiss local and national authorities, the finance community, the United Nations, NGOs, and other International actors to advance sustainable finance in Geneva and beyond. The initiative works with over 100 partner organizations and benefits from the expertise of a large network to address global challenges from different perspectives.











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Introduction



2022 Edition.

The third edition of Building Bridges took place from October 3 to 6 at the CICG in Geneva. This international event brought together members from the finance industry, the United Nations, international organizations, NGOs, academia and government during four days to address current global crises, and articulate common solutions to advance the Sustainable Development Goals.

Since 2019, Building Bridges has been promoting finance as a key lever to accelerate the transition to a sustainable economic system through annual convening activities. The 2022 edition of Building Bridges explored ways to cope with climate change risks, sustainable agriculture practices, opportunities in emerging markets, fintech, gender lens investing, greenwashing, and several other topics.

This year's edition opened with a 2-day high-level Summit that showcased prominent actors in the field of sustainable finance, such as Ueli Maurer, Swiss Federal Councillor, Emmanuel Faber, International Sustainability Standards Board, Patricia Danzi, Swiss Agency for Development and Cooperation, Paul Polman, former CEO of Unilever, Rebeca Grynspan, UNCTAD, Margaret Kulhow, WWF, David Nabarro, Skill, Systems & Synergies for Sustainable Development, and many others.





The Building Bridges Week included 68 crowd-sourced discussions, interactive workshops, roundtables, presentations and training sessions.

In addition to panel discussions, Building Bridges also hosted a series of networking events during the week to encourage actors from different sectors and generations to connect. The Building Bridges Village provided opportunities to showcase innovative projects in sustainable finance, exchange knowledge and develop new collaborations.

This third edition was an important step in the growth journey of Building Bridges. It offered a diverse program with internationally renowned experts, leaders from the Global South, and strong voices from the younger generation. While the event was mainly attended by Swiss participants, it gained significant international interest, with 1800+ in-person participants coming from 51 different countries.





Patrick Odier.

President, Building Bridges



Our world is currently facing a climate, energy, food and political crisis. While these crises have shown us how interdependent and fragile our human rights are, they have also highlighted that we all have a crucial role to play if we want to reach the Sustainable Development Goals by 2030. International organizations, real economy actors, the finance sector, universities, NGOs, governments from the Global North and South, young activists, we must join forces and collaborate to effectively address our global challenges.

Since the signing of the Paris Agreement in 2015, many organizations and governments have adjusted their activities but scientists keep reminding us that we must urgently increase action to cut emissions and slow the pace of global warming. To deliver on climate, environmental and social sustainability goals, major efforts and investments are needed.

The 27th Conference of the Parties on Climate Change (COP27) that took place in November 2022 stressed the need to translate our commitments into implementation, and called for the transformation of the financial system and its structures. Our economic model has been damaging our planet for years, and we must now all contribute to its realignment.

The ambition of the 2022 edition of Building Bridges was to raise awareness on the powerful role of finance and collectively accelerate the transition toward sustainability. During four days, we invited our community to share their experiences, skills, stories and practices in order to give birth to new joint projects. The purpose of this third edition was to position finance as a catalyst for change, and expand the Building Bridges concept. This year's program went beyond the usual climate and nature-related topics to explore all the social inequalities, and governance weaknesses that must be addressed to ensure a just transition. The event also underlined that we need to find a common language between all stakeholders to make sustainable finance mainstream. The development of standardized definitions and impact measurements will help us progress in this direction.

The involvement of emerging and developing economies will also be crucial. The initiative aims to create stronger bridges with the Global South. Developing countries are particularly vulnerable to the effects of climate change, and often face human rights violations. It is only by connecting the Global North and South that effective global solutions will emerge.

Building Bridges 2022 also provided a platform for other organizations to share concrete actions and results. The 2022 edition featured the launch of two new initiatives that aim to protect the planet, biodiversity and the rights of indigenous communities. Research results and reports were also presented during the week. Building Bridges' strength lies in its community that continually enriches the global dialogue on sustainability.



Nathan Sussman.

Professor, Geneva Graduate Institute; Director, Centre for Finance and Development; Director, The Swiss Lab for Sustainable Finance (SL4SF)

The third edition of Building Bridges convened in Geneva against the backdrop of a war in Ukraine, rising energy and food prices, inflation, higher interest rates, and significant declines in asset prices. The geopolitical and economic challenges were compounded by a more alarming IPPC climate report and drought conditions in Europe.

Unsurprisingly, the main focus of this edition was on climate, emissions, nature, biodiversity, and water. After supporting society and the economy during COVID, higher debt levels and tighter fiscal-space limit resources governments in high-income and, more so, in lowerincome economies have at their disposal for addressing climate change. Many sessions focused on the increasing role the financial sector should play in addressing the transition to net-zero and preserving biodiversity. The discussions ranged from mobilizing more resources and creating markets that price negative externalities to harnessing new financial technologies like blockchain to allocate funding and measure impact.

An important theme that echoed throughout the events was PPP: Planet, People, and Profits. The harnessing of private financial resources to address climate and nature should not be at the expense of people and without profit. Therefore, in conjunction with the increased emphasis on financing climate-related issues, many participants called for a just transition. The appropriate climate-related financial solutions should complement rather than be a substitute for other SDGs. Moreover, even in fiscally and financially challenging times, we should invest in social goals, especially in low-income countries and conflict areas.

Turning to profits, ultimately, private financial institutions have a fiduciary responsibility to their stakeholders. An interesting debate evolved as to whether managers of financial institutions should extend their fiduciary duty beyond maximizing financial return. While many members of the community called for including sustainability criteria in investment decisions, others highlighted that managers should not sacrifice returns. This debate bears on the role of financial regulation versus the voluntary adoption of guidelines such as the recently launched Swiss Climate Scores.

Time is of the essence when it comes to mobilizing resources to finance the transition to net-zero, and to guarantee an even playing field; regulatory intervention is required. At a minimum, asset managers should be required to provide a menu of sustainability-aligned investments and obtain their clients' consent to the possibility of lower returns.

Impact was the buzzword of Building Bridges, significantly more dominant than ESG compliance, and reflected the active role of sustainable finance in achieving the SDGs. Surely, impact has to be ESGcompliant, but it has to be more than a slogan. Participants in many sessions emphasized the need for data collection and standardized impact measurement. Preliminary research results, presented at Building Bridges, showed how far the impact investment industry is from standardized measurement.

Looking forward to next year's Building Bridges edition, three major challenges need to be revisited in more depth. The first is the issue of the fiduciary duty of asset managers and the role of regulation — as this would determine the scale of potential sustainable investments. Second is impact measurement and its standardization — which is needed to guarantee its effectiveness and efficiency. Finally, the challenge is to address the trilemma of finding scalable, fair, and politically feasible solutions for financing climate-related investments. Addressing these challenges requires the continued strengthening of the bridges between the private, governmental, NGO, international organization, and academia.



Summit



Public-Private Partnerships for a Sustainable Future.

"People, the planet, and profits are interlinked and depend on each other" (Helene Budliger Artieda, Swiss Secretariat of Economic Affairs). This simple yet powerful statement perfectly represents the great values shift over the last few years. Consumers and investors care about more than simply prices and profits, and companies need to adapt.

Patrick Odier strongly advocated, during the 2021 edition of Building Bridges, for the financial industry to commit to 4 main points:

- Acknowledge the complexity of climate change
- Stop financing new coal extraction facilities
- Stop deforestation wherever possible
- Foster common methodologies, of which Swiss Climate Scores are a shining example.

Today, even more so, these points are fundamental. In fact, while nature has found a way to mainstream itself in financial decision-making, it remains difficult for our society to price the value of natural capital correctly. The scientific evidence is univocal and unequivocal: our economic system is flawed as it leads to strong negative externalities such as water scarcity, increased toxic waste, air and agrochemical pollution, unabated GHG emissions, and biodiversity losses. It is clear that the original ESG framework is not fit, so regulators have pushed for a tighter **ESG 2.0** framework. This new system must be action-based.





For a company to be truly considered sustainable, it needs to actively contribute to the transition to net-zero while having a limited environmental footprint and positive social outcomes. However, while regulation will help counter phenomena such as greenwashing, the financial sector must do more. Fiduciary duty should be reinterpreted and broadened by including sustainability considerations since not only is it the right thing to do, but it will simultaneously mitigate risk and enhance performance. Ignoring sustainability criteria is. intrinsically, a breach of fiduciary duty, as financial intermediaries would not act in the best interests of their clients. Nevertheless, some financial institutions are still looking for a cue from regulators before broadening the concept of fiduciary duty.

A fair transition to net-zero requires the mobilization of enormous financial flows for an extended period. The good news is that this money exists; we need to redirect it wherever it is needed the most. However, as Philipp Hildebrand (BlackRock) stressed: "Financial firms can be enablers, not enforcers, of a just transition." They have a responsibility to their investors, not necessarily to invest where money needs to be invested but where it will make returns. To properly mobilize these resources, we need an appropriate policy framework we do not have currently. On the contrary, where investments are most needed are high-risk areas where it is most challenging to attract asset owners.

While it is undeniable that the financial sector's contribution has been quite substantial (with nearly 632 billion USD being invested in green projects over the past ten years, according to Vic Van Vuren, ILO), the pace of addressing global challenges and sustainable development must be enhanced and carried out in a substantially fair way.

To this end, institutional actors and the political world must act more efficiently and harmoniously with the private sector. However, sustainable finance faces headwinds from global economic and political systems – inflation, tight monetary policy, rising interest rates, and the war in Ukraine. These are coupled with an acceleration of the pace of climate change and beg the question of whether the financial sector can provide sufficient funding for financing the transition to net-zero at the pace required.

"

Our world is growing increasingly interconnected by the day, but, when it comes to solving the biggest challenges of our generation, we remain startlingly disconnected. There is today no greater challenge than the climate crisis, and it highlights the fragility of our interrelations. Only together can we implement concrete actions, and there is no time left for delay.

Al Gore

With these words Al Gore, former Vice President of the United States, highlighted the importance of **building bridges** between all the relevant actors of our society to move from an economic system that damages the planet to one that sustains and regenerates it. Even though the situation becomes more critical by the day, there is still hope to address issues such as climate change, biodiversity loss, food security, and more; but only if we all act now, quickly, and in **solidarity**. "It takes courage to blaze a trail, but the risks of inaction are far greater than the risks of moving ahead" (Patrick Odier, Building Bridges).

We must rethink the global financial architecture: from credit rating agencies to multilateral institutions, from investor consultants to the quality and availability of relevant data. Capital flows toward where it makes the most sense to invest, toward the points of least resistance. If it is not doing so, it is because the overall system is distorted. Governments can therefore play a pivotal role in fostering a quick and just transition. Without effective policies, the industry will be unable to transition effectively.



Nowadays, the demand for investing in the transition to net-zero is beyond the shadow of a doubt. The challenge is to find scalable, fair, and politically feasible solutions to meet this demand. However, it is challenging to imagine a scenario in which we can get more than a combination of two of these attributes (perhaps a new "impossible trinity," defined by Prof. Ugo Panizza, IHEID). Understanding and ensuring that everyone knows two simple numbers could be a game-changer. "We have about 300 gigatonnes of CO2 emissions left (to meet the 1.5°C target), and that's it (...) forever. When that really sinks in and considering that we are currently emitting approximately 40 gigatonnes of CO2 per year, you realize that what we have been talking about for such a long time is absolutely critical now!" (Prof. Beatrice Weder di Mauro, IHEID and CEPR). We also need to bear in mind that while we refer to the notorious 1.5°C target as a science-based target, it is, more importantly, a humanbased target. It is intrinsically connected to the kind of world we want to live in (Margaret Kulhow, WWF).

Encouraging and promoting the dissemination of these simple facts could catalyze the creation of a more favorable political environment and a global narrative based on common standards and goals. More specifically, there's a need for more holistic guidance from policymakers to public and private investors regarding the proper integration of **ESGs** into investment decisions.





Environmental, Social and Governance 2.0: Outlining the Path to a More Comprehensive Framework.

The E in ESG has been mostly identified with **carbon emissions** up to this point. Carbon emissions reduction is obviously pivotal in the fight against climate change. The private sector has begun taking steps to move toward the objective of net-zero emissions. Nevertheless, these efforts are not enough, as the disruptive effect of emissions-induced climate change is more evident than ever. Creating a global carbon market and implementing carbon taxes would constitute an ambitious short-term response; the most effective long-term solution remains decarbonization (Sergio Ermotti, Swiss Re). Being carbon neutral is not enough anymore; there is a need to reverse the harm suffered by the world's ecosystem.

At the same time, focusing solely on carbon emissions can be very reductive. It is now clear that economic activity has damaged biodiversity as much as it has affected the climate. We are now recognizing biodiversity linkages with economics and acting upon them but at a much slower pace than action on climate change. Thankfully, the **loss of biodiversity and natural capital** is rapidly joining climate as a key environmental concern for the global financial sector. We can't just focus on reducing emissions without ensuring we are not destroying biodiversity and natural capital. Keeping the ecosystem balanced is essential because climate action and biodiversity preservation are intertwined.





As nature and its services further degrade, we lose its ability to withstand the impact of climate change, and we need, in turn, significantly greater and faster adjustments.

Environmental adjustments are not only related to energy systems or industrial production, which the international community mostly focuses on. The E must be extended to Agriculture, Forestry, and Other Land Use (AFOLU). AFOLU systems alone are responsible for 24% of all GHG emissions, 90% of forest degradation, 25% of biodiversity loss, 70% of freshwater use, and 52% of soil degradation, according to Hubert Keller (Lombard Odier). Farming relies heavily on pesticides, tilling, and plowing the soil, which all contribute to greenhouse emissions. In addition, we mostly exploit the land for meat and dairy, which constitutes an inefficient use of arable land. We need to produce different types of food: less animal-based and by different means: for instance. through regenerative and precision agriculture. A complete overhaul of our food chain is necessary, from the farmer to the final consumer. A holistic approach is much needed, providing, among other things, dietary guidance to consumers to promote sustainable food consumption. Disrupting parts of the food chain is also an opportunity, as it will unlock new ways of economic development. To this end, Maria Lettini's (FAIRR) guidelines should be followed: "food systems need to nourish, be resilient, regenerative and right-based."

Fairness is perfectly embodied in the second attribute of ESG, the Social aspect. This involves, among other things, an astute awareness and defense of human rights, particularly in the developing world. One thing is clear, the Just Transition to clean energy cannot come at the expense of human rights. A just transition requires that we don't leave anyone behind. A just transition does not follow a single definition and is context specific. Defining it requires engaging with the various industries at the community level, ensuring people know their rights, and listening to local needs and challenges. Discussions of climate action often sound like governments, together with the financial sector and big business, will "deliver the transition" to the people rather than remembering that people are critical players in the process. For a just transition, governments, employers, and workers must work together as partners. In addition, upscaling and rescaling of worker abilities and skills are key components in facilitating the transition process. Investing in reskilling, education, training, and lowering barriers to meet future market demands is necessary. Talent is not a cost but an asset - one which will pay dividends both in terms of the planet and in terms of employees' well-being and happiness. Consequently, investors should be asked not only about their green strategies but also their talent strategies, as it is potentially counterproductive to focus only on one element of ESG.

In many ways, the G in ESG is not new and comprises an increasingly broad set of criteria examining how a company should be governed: ranging from tax strategy to anti-corruption and bribery practices, to board diversity and structure. However, the list of principles belonging to the Governance aspect, similar to the E and S components, is far from exhaustive and agreed upon. Accountability and transparency of ESG-related information and data have become essential to good governance and are fundamental in mobilizing private capital into climate action (Veronika Giusti Keller, BlueOrchard). The G is an essential component of investing. Without proper governance, one cannot change the economy and have an efficient transition (Sabine Magri, UBS). Good governance makes a company profitable, and profitability needs to go hand-in-hand with sustainability. Therefore, now more than ever, investing needs to internalize Environmental, Social, and Governance aspects and further bind them together. Strengthening ESG capacity is critical to achieving the SDGs and addressing climate change.





Data and Metrics: the Solutions to Greenwashing.

Universally agreed standards on ESG and Impact metrics are currently lacking in the sustainable investing panorama. Until now, initiatives have mostly been carried out at a national level. Switzerland, for instance, has given much attention (through popular referendums and government action) to designing the framework conditions and standards that provide incentives for investors to make sustainable decisions. At a supranational level, the EU taxonomy for sustainable activities, sometimes referred to as the "green" taxonomy, provides one of the most comprehensive examples of classification systems to prevent greenwashing and help investors make greener choices. Nevertheless, there is no consensus at a global level, and this is all the more problematic since climate change is, ultimately, a global problem.

To make real commitments to halt the climate crisis, we need to source and use nature data as seriously as the financial sector has used financial data over the past 200 years (Antoine Sire, BNP Paribas). This requires data to be collected, disclosed, and readily available in a globally consistent, simple, and easily understandable manner. On the bright side, especially thanks to technological improvements and the engagement of regulatory institutions, data are already available for investmentdecision making. Data availability has been fostered by increasing innovative regulations such as the EU Sustainable Finance Disclosure Regulation (SFDR) or thanks to the work of the Task-forces on Climate and Nature-related Financial Disclosures (TCFD and TNFD) and by other institutional actors such as the Network for Greening the Financial System (NGFS) and the International Sustainability Standards Board (ISSB).

In a space where things are complex and evolve fast, businesses must start with **voluntary** disclosures and transformations. For instance, certifications are a good starting point, especially for figuring out the environmental impact of supply chains. However, unless we establish **mandatory disclosure requirements**, we will not be able to pick up the laggards of the green transition, which are likely to cause significant damage. Public and private partnerships at the national and international levels are, once again, crucial.

Emerging and Developing Markets: the Key to a Just and Efficient Transition.

As climate change is already striking at a rapid pace and intensity, we must move from commitments to actions. Problems may arise, however, for the transition of emerging and developing economies due to their shrinking fiscal space, and this will require the help of the developed economies' financial sector. In the aftermath of the pandemic, the percentage of poorer countries at high risk of debt stress increased from 40% to 60%. Moreover, there is a fundamental issue of fairness. Advanced economies (AEs) do not have the moral high ground to mandate low-income countries not to pollute. The advanced economies polluted while creating much of their wealth in the past and are still major polluters (Marcello Estevão, World Bank). Furthermore, AEs have the right tools to deal with climate change, whereas the same cannot always be said for the rest of the world.



Finance has a vital role to play in this regard. Financial instruments and innovations in sovereign debt management, such as Debt-for-climate Swaps or green and sustainability-linked bonds, are important steps forward, along with the universe of climate-related financing initiatives carried out by institutional actors, such as the World Bank. However, other than acting as a catalyst, these institutions do not have the balance sheet to tackle these problems themselves. As Marcello Estevão put it, "What is needed is severe debt restructuring for low-income countries to create the necessary fiscal space to deal with climate change, as well as other relevant social objectives (...) for this we need greater contributions from richer economies".



The Way Forward.

In the past few years, we have witnessed sustainability factors being progressively taken into consideration in business models. A growing trend of accounting for ESG metrics in financial valuation is increasingly driven by public demand for more sustainable solutions and the risks of not considering long-term factors. There is an urgent need for markets to grapple with climate risk assessment as climate change's impact on most business models and sectors becomes more apparent. In this regard, the pandemic served as a favorable shock as we moved from 20% to 65% of countries making net-zero commitments (Paul Polman).



As companies are turning their attention to being netpositive, a **multilateral momentum** must emerge so that the enhanced synergies between businesses, shareholders, and other key stakeholders can promote a new economic model that puts sustainable development at its core (Emmanuel Faber, ISSB). Cooperation, solidarity, fairness, and transparency are key concepts we need to keep in mind. All these, together with technological innovations, will shape the future of our planet because, in the end, "we can't have healthy people on an unhealthy planet (Paul Polman).





Community Events



Partnerships.

Events





The world is facing many crises, with climate change being the most severe long-term threat. In addition, the COVID pandemic has only reinforced our dependencies on each other and the need for collaboration to bring about long-term **sustainable solutions**. The SDGs and climate effect the financial industry. There is a growing consensus that it has the duty and, most importantly, the capacity and capability to respond to these system-wide challenges through responsibly channeling capital toward sustainable long-term development projects and climate change mitigation and adaptation.

Finance has contributed to the destruction of ecosystems, accumulating wealth where it is not needed, and ignoring the consequences of the tragedies it creates (Carlos Alvarez Pereira, Club of Rome). The urgency for the financial sector to be more proactive and support businesses with a positive social, environmental, and economic impact does not arise just from the present major geopolitical and environmental crisis. For half the world, every day is a crisis (Ashok Khosla, Former President of the Club of Rome); instead, it should stem from the fact that investments should flow toward activities and businesses with a net positive impact on society. The financial system is currently still primarily profit-driven, and it has failed to address inequality and poverty. Reducing inequality is pivotal for the survival of our global society (Sandrine Dixon-Declève, Club of Rome).

And while it is challenging to change values and move traditional finance to integrate complex systems sciences and ethical norms and behaviors in financial decisionmaking, the present offers the industry a unique opportunity to refocus its purpose (Jonathan Duncan, Asteria Investment Managers). The presence of diverse stakeholders in the finance universe makes it all the more complex to build consensus toward this path.





However, the financial sector does have the potential to influence and educate its staff as well as its clients and nudge them toward taking more responsible investment decisions by providing compelling arguments and data (Daniel Wild, J. Safra Sarasin). As Sara Bourhime (Mirabaud) phrased it: "a good approach would be to take ownership of our actions, by working hand in hand with the companies that we invest in, to help them walk the talk."

At the same time, it is crucial that no financial institutions simply "take old products and re-brand them in new bottles" as Ben Banerjee (Swiss Impact Investment Association) warned. Due to skepticism around ESG and greenwashing, the finance industry must build and reinforce trust around its intentions. Trust could be strengthened by using data drawn from reliable sources. Data plays a key role in understanding the complexities of the systems we are dealing with, where a large number of elements constantly interact with one another. Data retrieval, exploration, and visualization, as well as quantitative and network analysis, allow for effective tracking and management of these systems (Jean-Marie Le Goff, CERN). One example of advanced visualization technology is CERN's CSX. However, trust in data is only possible with four attributes - transparency, openness, simplification, and an accompanying platform for dialogue (Lionel Boldin, Accenture). This could be made possible with available technology; we just need to use it. Sharing technology across different disciplines and sectors will prove immensely useful: trans-disciplinary collaboration will have to become the new normal. Data must flow more freely across sectors; we need data bridges.

Multi-stakeholder collaboration and policy frameworks are needed to provide the proper regulation and safeguards to enable the finance industry to lead the massive systemic change. To this end, we need to combine the strengths of the business sector, the government, and civil society to pave the way for a sustainable future. Creating a global integrated systems framework that combines transformations in systems financing, systems planning, systems of data, and systems of innovation across different sectors, instead of working in silos, will help scale up the solutions by mobilizing trillions of capital that are not currently aligned to sustainable development. Working through an integrated systems framework, rather than designing potential solutions individually without collaboration, can reduce the infrastructure costs of achieving the SDGs from 8.2% to 4.5% of world GDP, with a potential saving of up to USD 3.6 trillion annually (Arthur Wood, Equity4Humanity).

Emerging and developing economies are also part of the solution. Their inclusion in this new framework is mandatory if we want to find a global solution to a global problem. There is a general perception that no capital is available in the developing world. However, pension funds in these countries hold trillions of dollars in assets. With the proper capital structure, future entities could guarantee local bonds in local currencies without any foreign currency risk.

Even the smallest actors, such as small island developing states, can play a relevant role despite often being marginalized in the global agenda. As Former President of Mauritius Ameenah Gurib-Fakim stated: "One square kilometer of a biodiversity hotspot has more biodiversity than the entire European continent." She went on to suggest that the restitution of stolen assets could provide capital flows to foster impactful investment opportunities and necessary R&D investments for possible solutions to the pressing problems that the world is currently facing.

80% of the world's population lives in developing countries, and the current financial system does not serve them. Even though most money for impact investment flows is earmarked for emerging market economies, the total amount remains relatively low. Blended finance can be the way forward, as financial innovations will go a long way in helping to solve this crisis.



Sustainable, Blended and **Regenerative Finance: Useful Definitions**

Although traditional finance theory emphasizes the creation of value for the shareholder, society has increasingly been demanding companies consider ethical concerns on behalf of their stakeholders, pressuring them to provide ESG-related products.

- Sustainable Finance refers to considering ESG criteria when making investment decisions, leading to more long-term investments in sustainable economic activities that will meet sustainable fitture activities that will meet the sustainable fitture for the sustainable fitture. current needs without compromising future
- Blended Finance consists of the strategic use of finance from multiple sources: private, public, and philanthropy, to provide additional resources toward sustainable development in developing
- Regenerative Finance uses finance to regenerate communities and natural environments with the assistance of blockchain technologies. In this setting, circulation replaces accumulation.
- Transition Finance facilitates the financing of the journey toward the 2030 Agenda and the achievement of sustainable development.

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 finance.ec.europa.eu
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Innovative Finance Solutions and Fintech.

Events





Blended and Regenerative Finance.

Blended finance provides innovative solutions that cater to several key SDGs. A useful way to understand how blended finance works in practice can be found in the words of Dominique Paravicini (SECO): "Blending finance is like mixing a cocktail and requires all the right ingredients in different proportions such as seed and commercial capital and concessional funds, either through public or philanthropic funds, to be effective." Blending is a structuring approach, a means to an end, and the end is social impact (Christian Brändli, SECO).

Globally, there is sufficient capital, but it is not flowing to where it is most needed. Blended finance shows how capital markets can pursue social and environmental impact, even in very risky contexts, by partnering with public and with development and local actors (Melchior de Muralt, Pury Pictet Turrettini). BlueOrchard was among the first ones to develop this type of financing more than 15 years ago. As part of its first project, it launched investing in tier 2 and 3 microfinance institutions by having a first equity tranche funded by the German government, a mezzanine tranche by IFC and KfW, and a senior tranche attracting commercial investors, pension funds, and insurance companies. This shows how blended finance can help tap into unlimited sources of the capital market to fund social endeavors.

Impact bonds are another innovative blended finance vehicle. They are based upon a pay-on-result mechanism. In this framework, social investors provide capital to a project and are repaid through public money when the bond matures, provided it has reached the predetermined environmental and social targets.





The ICRC launched the first humanitarian impact bond (HIB) with this structure in 2017 to foster physical rehabilitation services in the Democratic Republic of Congo, Mali, and Nigeria: it was initially funded by Lombard Odier and New Re and ultimately reimbursed through payment-by-result agreements by the so-called "Outcome Funders," that is, the Governments of Switzerland, Belgium, Italy, the United Kingdom and "La Caixa" Foundation.

Pegasus's Subnational Climate Fund (SCF) collaboration with R20, IUCN, and The Gold Standard provides, instead, an example of a public-private partnership offering **technical assistance** in the first stage of green economy projects (mostly on renewable energy and energy efficiency, waste management and water, urban solutions, and agriculture) in developing countries. This partnership also provides funding to properly report these projects' potential returns.

On the philanthropic side, UBS Optimus Foundation is also very active in deploying catalytic capital in the initial stages of social impact undertakings. Using instruments such as impact bonds, they contribute to making less attractive sectors — such as education — more investable by linking financial returns to social impact. Their "Quality Education India - Development Impact Bond" improved the quality of school education for over 200,000 children while generating an 8% return for its investors. The International Finance Corporation's (IFC) PRICO Solar project offers another successful example of how blended finance can perform in risky conditions. In a complicated context such as Gaza, IFC succeeded in bringing about reductions in GHG emissions while contemporaneously increasing employment levels in the region.

However, as blended finance keeps growing, four main issues impede its functioning and scale up.

- First of all, risk (real and perceived) continues to remain a major factor deterring investors in new country contexts. To this end, de-risking and information provision are necessary for this financial structure to keep growing. However, information can be difficult to obtain. Fostering stronger partnerships with multilateral and local actors, whose knowledge of the markets is critical, will provide more funding for more reports and data to identify key projects. Providing external technical assistance is also important in reducing the risk of failures.
- A second issue (still related to risk) is caused by local currencies' exchange rate volatility. As previously mentioned, there are trillions of dollars available within pension funds in emerging markets; but this does not solve the problem for foreign investors. Hedging against exchange rate risk could reduce this risk but requires the development of derivative markets for these currencies.
- Thirdly, transparency is needed at each level of the system. Investors need to know how much of their returns, especially in the initial stages of the projects, are due to subsidies, along with a justification for why these subsidies have been utilized.
- Last but not least, uniformity of credit ratings together with detailed track records can be useful tools for scaling up blended finance solutions, as the Africa Infra Fund case study shows, being given a higher rating from Moody's leads to increased credibility and increased private investment.

Blended finance is still in its infancy in terms of scale. This is mostly because the different actors involved do not always "speak the same language" (Melchior de Muralt, Pury Pictet Turrettini). Building Bridges is an example of a platform where a new type of conversation can be created.





Regenerative Finance (ReFI) is a movement that aims to address sustainability challenges, such as climate change, biodiversity loss, resource efficiency, and the underpinning socioeconomic and institutional structures that exacerbate these crises. Under this system, a positive impact is no longer a by-product of return on capital. Instead, the goal becomes positive change with financial return circulating within the community. It supports a shift from an economy that is extractive to one that is regenerative. The primary goal of ReFi is to redesign money and leverage blockchain technologies to support nature and achieve the SDGs while, at the same time, evolving into a decentralized collective of individuals shifting how we value and monetize natural capital. Nicholas Alexander (Thallo) warns: "We need systems change before systemic change", meaning we need to change individual systems and their components before we can enact full systemic change. ReFi can be a way to achieve this goal.

The current economic system does not place value on nature and creates negative externalities for many of which there is no accountability. This is partially due to lack of data, especially regarding biodiversity. Moreover, the existing data are almost exclusively available for Global-North countries. However, this is even more puzzling since the technology to gather data on biodiversity does exist. Cello4S is an example of a lowcost, effective and robust monitoring system. It samples water from rivers, filters it, and analyzes the DNAs in it. The sample generates data on the ecosystem's species varieties that can be monitored over time.

These data are unfortunately not easily accessible and, in most cases, are not transparent. Blockchain could facilitate transparency while including several stakeholders in the decision-making process due to its decentralized nature. In addition, a platform to correctly value the available natural capital is also needed.

Senken combines this need with innovative technologies by providing an online carbon credits platform that enables transactions of tokenized carbon credits from verified climate projects. It facilitates transparent and traceable corporate carbon investments and offsets for the road to net-zero. According to Djamel Mekibes (Senken), employing blockchain-based strategies such as this one can cut down unnecessary intermediaries currently present in the traditional platforms of Voluntary Carbon Markets (VCMs) and increase the efficiency of these markets.

Blockchain: a Revolutionary Technology in the Service of Sustainability

Blockchain is a public, permissionless digital ledger of decentralized, immutable, and secure transactions. These properties enable blockchains to enhance transparency, privacy, and automation of value transfer of assets, obligations, and identity in a disintermediated manner. In the domain of sustainable finance, blockchain has demonstrated several use cases:

- Unlocking sources of finance through improved liquidity, transparency, and access, as in the case of on-chain voluntary carbon markets.
- Improving the data traceability and transparency of value chains to foster better compliance with ESG standards.
- Catalyzing new, more sustainable business and market models of transacting between industry and consumers.

Source: www.oecd.org

Blockchain and Digital Finance.

There is potential for adopting blockchain into sustainable finance to accelerate its impact. However, "there is still a disconnect between the development finance/impact investing community and blockchain space that is relevant for SDGs. We have to build a bridge there" (Christian Speckhardt, Tavis Digital).

This bridge would create trust in the technology and, more generally, in a more decentralized world. In the words of Sandro Knöpfel (Cardano): "Trust is most likely the only legal performance-enhancing drug. That means that we build all our relationships — be it personal or professional — on trust."

Cardano is an example of a permissionless public (open source) blockchain platform, meaning that anyone can use Cardano to build their blockchain. It is the first platform founded on peer-review research and developed through evidence-based methods. Cardano ensures the security of the blockchain using **Proof of Stake** (PoS) algorithms instead of highly energy-intensive ones based on **Proof of Work** (PoW). A successful case of employing blockchain for sustainable goals is Veritree's planting management platform, now powered by Cardano's blockchain.



It stands for Verifiable Global Restoration Projects and allows for transparent monitoring, tracing validation, and permanence of the planted trees, thus building trust for sponsoring companies, planters, and end consumers alike thanks to blockchain technology. Blockchain can have a disruptive impact in other fields as well. World Mobile, for instance, is an example of connectivity and telecom solutions offered by blockchain to parts of the world that are still offline. The potential impact opportunities of blockchain-based technologies are endless; we should therefore keep educating the ecosystem on the potential benefits and risks of this technology.

We are still experiencing the effects of the Digital Revolution. Digitization has provided significant benefits, and has had a significant impact on finance. Digital finance is essential for **resilience**, ensuring that the financial system works, and for **financial inclusion**, especially in communities that traditional banks have failed to serve (Building Bridges Report 2021). Non-bank digital financial services can especially empower people where there is a lack of trust in traditional institutions (in many African countries, for example) and help link retail finances with sustainable impact.

The Green Digital Finance Alliance (GDFA) promotes sustainable financial inclusion by collecting best practices on how to make digital user journeys more sustainable. It was founded in 2017 at the World Economic Forum under the leadership of UNEP and Ant Financial Services. Since then, it has focused on three pillars: global thought leadership, open tools and frameworks, and market-led demonstration and experimentation. It thus analyzed how users are engaged in green tech, summarized methods and modalities, and incentivized further actions. GDFA participants, from Sanlam Group to FNZ, from tidr.earth to the Every Action Counts (EAC) Coalition, have one thing in common: empowering people across all demographics and geographies.

Technology and regulation will, in turn, educate providers and customers on sustainable choices, which is key to unlocking the necessary capital.



XXI Century Guide to Sustainable Investment.

Technological improvement is broadly viewed as a significant force in combating global challenges. However, not all technologies have a positive impact. Before investing in specific technologies, one should be certain that their benefits outweigh the costs. However, there is a blind spot in the current ESG framework when it comes to investigating potential negative spillovers from technological innovation.

The Human Technology Foundation (HTF) aims to close this gap by providing a flexible framework to evaluate tech's societal and environmental impact. The framework assesses the positive impacts (according to the SDCs), the negative risks and impacts, and the companies' context (i.e. how a company can mitigate the risks and contribute to a positive impact). The areas of interest range from well-being and health spillovers to environmental effects and legal risks. The framework is flexible because it does not provide a score, and investors are instead encouraged to use it based on their values and priorities of investment.

Conversely, new technologies can also help us better understand where to invest, especially when it comes to ESG investing. For instance, RAM Active Investments has employed Natural Language Processing (NLP) to extract ESG sentiment from company reports while concomitantly promptly capturing controversies (through the use of words and text embedding) and cross-checking company's claims with data sources. In fact, reported structured data only shows one part of a firm's sustainability profile. Employing technologies such as NLP can help counteract greenwashing and contribute to direct investments toward those companies embracing ESG criteria.







Environment.

Events



>	Markets	for Nature: A	Global Index	for Biodiv	versity	
	Eterprise for Society	ETHzürich	CROWTHER LAB			
>	Biodivers	sity Footprint	ing of Portfo	olio: How to	o Scale It Up?	
	IUCN	B&L &	Bioperf.biz			
>	Ecosyste	em Restoratio	n: the Next F	rontier of	Environmental Investir	ng
	💏 BNP PA	ARIBAS				
>	BlueImp	act: Driving C	apital to Blu	e SMEs		
			environment programme	ADB	Ocean SME Finance	
>	From Wi	ny to How: Inv	vesting throu	ugh Public	and Private Markets	
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There is momentum in integrating ESG considerations into sustainable investing. According to Swiss Sustainable Finance, ESG investing saw a jump of about 160% over the past few years. Companies such as Danone are changing the perception of ESG integration, for instance, by making every manager an ESG ambassador. Progress and growth in impact and ESG investing have also been accompanied by regulatory developments, with the EU at the forefront of these innovations. However, while on the one hand, the EU taxonomy is contributing to this integration in the investment landscape, there have also been signs of a backlash against the very notion of ESG and what it entails for the real economy. For this reason, the role of civil society and strong governance and policies are very important. As Corinne Namblard (VivaVacs) argued: "The discussion (should revolve around) the 3 Ps: People, Planet and Profit".

Combining sustainability concerns with financial valuations decreases risks and positively impacts economic returns while strengthening fiduciary duties. Factoring carbon emissions into investment strategies was the easiest starting point. However, a proper sustainable approach entails **moving beyond emissions considerations** to factor in a wide range of other criteria. Innovative approaches in modeling and improvement in data retrieval and dissemination (ranging from Al technologies to satellite data) could increase the quality of the analysis, both qualitatively and quantitatively.

The Environmental Aspects of ESG: More than "Simply" Carbon Emissions

The environmental portion of ESG, the "E," is fundamentally a measure of a company's impact on the natural ecosystem. There is still no consensus on the exact list of issues and their materiality. Initially, carbon emissions were previously identified as the only source of environmental concerns for ESG investors, which has changed more recently. Here is a non-exhaustive list of leading environmental issues:

- Climate Change and Carbon Emissions (e.g., greenhouse gases, CO2, etc.)
- Natural Resources use and Energy and Water Management
- Pollution and Waste
- Ecodesign and Innovation
- Biodiversity





Plastic Pollution and Waste.

Plastics are ubiquitous in our lives. They are versatile, resistant, lightweight, and low-cost, and their production has grown 400 times since 1950. Unfortunately, poor life cycle management has led to widespread pollution and massive environmental damage. The world annually produces plastics amounting to the equivalent of the total mass of the global population. However, the issue we face today is not plastics per se; it is rather the 'Make, Take, Waste' business model of the industry.

Additionally, 93% of plastic is produced using fossil fuels, emitting 1.5 gigatonnes of carbon. Nearly half of the plastic produced is single-use, leading to a massive endof-life issue. The OECD estimates that if this problem goes on unmitigated, plastic waste will double by 2040.

We need to move from a WILD (Wasteful, Idle, Lopsided, Dirty) Economy to a CLIC (Clean, Lean, Inclusive, Circular) Economy (Jean-Pascal Porcherot, Lombard Odier). The financial sector can play a crucial role in helping scale solutions across the entire plastics value chain. Mobilizing substantial private capital is key to this transformation. To this end, Lombard Odier, in partnership with the Alliance to End Plastic Waste, has launched the first large-scale private equity fund dedicated to promoting plastic circularity. There is also a strong business case for a circular economy amidst changing consumer behavior and preferences. Companies with better environmental credentials tend to gain greater market share than others. In addition, the cost of doing nothing is bound to rise due to stricter regulations, such as plastic taxes, fees, levies, bans, etc. (Mark Schneider, Nestlé). From the public sector perspective, the UN Treaty on Plastic Pollution is a step in the right direction, underlining the importance of promoting the circular design of products and materials so that they can be retained in the economy for a longer time. However, there is a need for collaboration across different stakeholders throughout the entire value chain. A collaborative policy-making process involving public-private partnerships is key to achieving plastics circularity.

More practically, a big part of the solution lies in establishing reuse and refill systems — especially for densely populated areas — and building awareness among households on waste collection — whether it be in developed or developing countries. This could help capture at least a fraction of the 80-120 billion USD value of plastic waste that gets lost annually instead of being recycled. Additionally, creating adequate infrastructure for waste collection and management is essential, as it is estimated that about 3 billion people do not have access to waste management facilities.

Gringgo is a start-up that developed a technological application for waste management. It primarily focuses on collecting data on waste generation and identifies large waste producers. The app then provides solutions on collection methods and helps people recycle waste using AI. Waste workers will be able to take a photo of trash, and through image recognition, the AI will identify the items and their associated value. This will educate waste workers, help them optimize their operations, and maximize their wages. Within a year of launching the associated apps, Gringgo improved recycling rates by 35% in their first pilot village, Sanur Kaja, in Bali in 2018. It is now operating in more than 200 cities worldwide. Nevertheless. economic viability is absolutely fundamental if you want to attract capital and take it to scale (Jacob Duer, Alliance To End Plastic Waste). Derisking investments by developing and testing new solutions in local geographies before scaling up can help boost investor confidence. While the problem is huge, there is a need to exercise patience as creating and scaling up solutions takes time. Circularity, Collaboration, and Conviction are key factors in speeding up this process.





Water Management.

Fresh water availability is not just a problem in the Global South but for humankind. According to Marie-Laure Schaufelberger (Pictet), water-related issues are of the utmost relevance because it is an essential element for human life and planetary health. A simple example is that when temperatures go beyond 30 degrees, the human body requires 30% more water. Furthermore, water pollution (through increases in pesticides, antibiotics, or hormone concentration) poses serious health issues. Not to mention energy systems that rely on water can be disrupted due to changing water availability and patterns. Water is increasingly becoming a security issue (Samuel Godfrey, UNICEF), and financial risks for wealthy investors are already dire realities in many parts of the world, including high-income states like California.

Financial institutions are working on elevating water risk to the level of climate risk (Kirsten James, CERES). Pictet has a long-standing focus on water and uses its leverage to work closely with Ceres, the leader of the Valuing Water Finance Initiative. This newly launched undertaking has identified companies with exceptionally high water consumption, and it unites 64 investors with 10 trillion USD of assets under management to reduce these firms' water footprints. Similarly, UBS has included water risk in the valuation of its real estate portfolios.

The real challenge lies in financing the water infrastructure, where it lacks most. Besides reducing companies' water footprints, investors must engage more to achieve change on the ground, especially in lowincome countries. Even though broad-scale investments in water-access infrastructure could prove very profitable, a robust pipeline of bankable projects for water infrastructure seems to be missing, especially in African countries. Investors highlight the high-risk environment and the high costs of setting up these contracts as the main reasons for this shortcoming. To this end, UNICEF provides de-risking in those areas where proper governance is lacking. Lessons from climate financing can be applied to water financing. A great example of what blended finance and private partnership can achieve is offered by SwissRe's involvement in water provision in Sub-Saharan Africa, where a billion dollar long-term commercial loan was issued by a consortium of banks backed by both a partial credit guarantee from a multilateral development bank and sovereign loan payment insurance by SwissRe itself.

Biodiversity Loss and Nature Restoration.

Biodiversity is our life support system. Ironically, while our exploitative approach allows us to grow, it also undermines the very systems that sustain us (Thomas Elliot, Crowther Lab). Biodiversity is an excellent indicator of nature's health (Olivier Schär, Bioperf). Climate, nature, social equity, and finance are all very intimately linked, and ignoring any one of them is no longer an option. Without a healthy and productive natural environment, neither climate goals nor those of social equity have any chance of being achieved. The money in the global economy should work for humankind's future and not against it. The approach to tackling nature finance challenges involves raising investor awareness and using transformative technological tools and innovations. We currently do not have an innovation problem but a scale problem. Technological advancements and increased sensibility toward nature preservation in the financial sector's agenda make it such that the "Nature Wave" has arrived and, as Simon Zadek (NatureFinance) figuratively put it, "we are swimming in it already." To this end, NatureFinance (formerly F4B) aims to increase the materiality of biodiversity in financial decision-making to better align global finance with nature conservation and restoration.

While investors are keen to invest in biodiversity by internalizing costs of environmental impact accruing in the supply chain and allocating additional resources for high-quality projects, it is yet to be determined whether there is investor demand for offsets in terms of credits (Tanja Havemann, Clarmondial AG). However, there are promising signs that nature markets could be the next frontier of voluntary markets. In current carbon markets, 45% of carbon credits come from nature-based solutions (Oliver Withers, Credit Suisse). In addition, the concept of nature positivity could be a strong driver for creating markets for biodiversity and nature conservation.





The introduction of nature market pilot programs is a cautious step in the right direction to a more sustainable future. The benefit of giving value to nature is more complete markets. The risk lies in what happens if ecosystem services are valued incorrectly. One of the reasons that CO2 emissions have taken off as a measure of "greenness" is that it is possible to measure and interpret them easily (Ruediger Fahlenbrach, EPFL).

There are two extremes when it comes to techniques for measuring nature's well-being. One extreme is to deepdive into the complexity of the ecosystem with a groundbased assessment, and this approach is, unfortunately, not scalable. The other extreme is to rely only on satellite data, and this approach does not go into enough detail about the complexities of biodiversity. The Crowther Lab team is developing a global biocomplexity index that combines micro and macro-level data. The index globally collects datasets on every aspect of the ecosystem from satellite to local data — and compiles them into one metric. This metric can then be used to assess and value nature, compare potential and actual biocomplexity, and track changes in nature over time, including changes resulting from climate change or human action.

A single index that collapses many levels of data into one metric is diverse, scalable, and more accessible. It can be readily conveyed to stakeholders and easily compared over time to measure an ecosystem's well-being. Moreover, by compiling data at different levels, the index better maps the spatial structure of the ecosystem than any single measure alone; more complexity, in this case, brings more resilience (Daisy Dent, Crowther Lab). While some metrics might correlate positively with an ecosystem's state in one context, they may relate negatively to another. Thus, a holistic approach is more appropriate when assessing an ecosystem's overall wellbeing.

We also need indicators of companies' biodiversity footprint. Even though some qualitative and quantitative (more or less aggregated) assessment tools are already available (ENCORE, GBSFI, BFFI, etc.), and regulation is in the process of being defined (the UN Global Biodiversity Framework will come into operation in December 2022). Current assessment tools only have the capacity to cover approximately 20% of portfolios in terms of their biodiversity impact. Companies should not wait idly, but they should start taking voluntary action, as they might have the chance to shape how the final framework will look (Gérard Bos, IUCN). Companies should also cooperate with governments, NGOs, and consultancies, share best practices, and actively contribute to policy-making. Cooperation is even more critical for SMEs that might not have sufficient resources to assess their impact and act accordingly.

Ultimately, innovation for nature must be achieved by supporting ventures with a **positive biodiversity footprint** rather than focusing on the reduction of destruction exclusively. **We consume nature almost twice as fast as we regenerate it**; therefore, without positive restoration, natural capital will still be lower than what we started with. Natural capital scarcity increases its value, so investing right now is profitable. The World Economic Forum has estimated the current size of the investment opportunity to be close to USD 22 trillion. In practice, the financial sector should redirect capital toward investment in technologies in three main fields: ocean & water systems; land, food & forestry; and sustainable cities & buildings.

Investing in natural capital is even more complicated in lower-income countries because of high short-term market volatility. For instance, 95% of BNP Paribas's portfolio is, with few exceptions, centered around developed markets. This is problematic as most of the biosystems to be protected and restored are in developing and emerging market economies. Partnerships are yet again the solution. The collaboration between UNDP, Germany, and Vietnam to better protect the Vietnamese coral reef ecosystem provides a great example of how even more traditional finance solutions, such as insurance and the creation of disaster risk funds, can concur with the protection of nature and prevent biodiversity loss. The UN Global Fund for Coral Reefs is an excellent prototype involving an institution employing blended finance and bringing member states into one platform to identify the solution, monitor impact, and create sustainable supply chains. It provides grants, equity, and concessional funds and identifies core challenges and responsive solutions to protect coral reefs in emerging economies.

When discussing biodiversity protection, one cannot fail to consider the protection of the oceans. Over two-thirds of the planet is oceans, and protecting life below water (SDG 14) is crucial to combating climate change.





The land and the oceans are not two separate systems but rather two sides of the same coin (Joan Fulton, Ocean Assets Institute). Oceans are also fundamentally impacted by climate change, and to work on climate change is ultimately also to work on ocean change (Boris Herrmann).

Nestlé is among the largest multinationals involved in ocean protection and restoration, for example, through its seaweed cultivation in coastal communities program. Its sustainability approach across its supply chain is based on the three pillars of "acceleration, transformation, and regeneration." Seagreen also operates in seaweed farming and empowers local communities and farmers with financial services and climate change-related insurance products, facilitating a more democratic value chain for coastal communities. This bottom-up focus on improving the value has the potential to create a powerful blue economy. Another example is Indonesiabased Sampangan, which turns marine debris into reusable products. It contributes to waste management and fosters collaborative efforts of several stakeholders in the process. Blended Finance can facilitate the financing for Blue SMEs and provide capacity building to local communities.

Climate Change and Carbon Emissions.

Climate change and carbon emissions was by far the most discussed topic during the 2022 Building Bridges Week. Even though the discussion on reducing emissions to fight climate change has been going on for a very long time, action has not yet been scaled to the degree necessary. However, time is running out. We have approximately 300 gigatonnes of CO2 emissions left to remain within the 1.5-degree target, and we are currently emitting around 40 gigatonnes per year. Climate change is not a problem for the future; it is here, now.

How is the financial sector working toward climate solutions? The reality is that net-zero targets are longdated and difficult to imagine in practice. The problem is not finding the capital, the problem is where it is directed (Federica Calvetti, Eurizon). Current investments (both from the private and public sectors) are insufficient and less than one-fifth of what is needed to achieve net-zero by 2050. Real-world mitigation and adaptation solutions require urgent financing to scale up. Within the financial sector, companies tend to shy away from such investments due to the perceived risk involved. The sector needs to demonstrate how these investments perform and destigmatize their risk. One of the most important roles that the finance industry can play is educating clients and asset owners about the impact their investments are having on global warming paths and to provide them with actionable approaches to reduce emissions and support well-tested climate solutions (Maila Schaerer, Julius Baer). Contemporaneously, regulatory bodies can strongly influence the direction of capital flows toward environmentally friendly technologies, in particular by creating the necessary frameworks as well as supporting new solutions to help them become investible by private capital. We must just be cautious that the frameworks that are put in place do not become a "nightmare for asset managers and a paradise for consultants" (Stefano Montobbio, EFG Bank), in other words they need to solve the real problems we face without hampering innovation and becoming box-ticking, red-tape activities.

Mitigation & Adaptation: Two Sides of the Same Coin

Our society has already committed to some level of climate change. For this reason, appropriate responses to climate change involve a dichotomous approach:

- Adaptation: entails adjusting to current and future effects of climate change by anticipating potential adverse effects and taking appropriate measures to prevent or minimize the damage they can cause, for instance, through large-scale infrastructure changes or behavioral shifts.
- Mitigation: consists of reducing the impact of climate change through prevention or reduction of greenhouse gasses (GHG) emissions into the atmosphere and improving carbon sinks. Mitigation measures also include actions to reduce biodiversity loss.
- However, more mitigation now lowers the need for adaptation later.

Loss and Damage are the destructive impacts of climate change that cannot be avoided by mitigation or adaptation.

Source: www.eea.europa.eu





BlackRock has quantified the sheer investment volume required to get to net-zero in 125 trillion USD. This money needs to be efficiently invested. To this end, BlackRock has been testing AI and Machine-Learning techniques for forecasting KPIs and assessing impact. 90% of the companies in their portfolio have data coverage on impact KPIs, but the data collection process needs to be streamlined by investors. According to BlackRock, assets managers should rely on a three-fold approach when investing:

- Navigating requires calibrating existing investments during the transition phase and minimizing tracking errors.
- Accelerating requires scaling up the transition.
- Inventing consists of creating new climate tech and green strategies for carbon sequestration from both industrial and natural capital solutions.

The energy transition is a mega trend that affects capital allocation today and well into the future (Damien Contamin, BCGE). The required rate of decarbonization for the transition has been quantified as between a 7 and 8% reduction in carbon emissions per year between 2021 and 2050. The current energy system is 80% dependent upon fossil fuels (Peter Michaelis, Liontrust International). Moreover, oil is primarily employed in multiple other sectors, such as in the construction of roads. Capital support to achieve the energy transition should be redirected to companies currently involved in developing alternative energy sources. In this case, perfect competition might not always be optimal. Investors should focus on companies that have already taken the necessary steps to contribute to the fight against climate change and have consolidated positions in the sector. Consequently, policymakers should support these businesses by creating an environment where they can easily access the capital needed to scale up.

In the journey to net-zero, financial institutions should not focus only on decarbonizing portfolios but also on decarbonizing the real economy (Hamid Amoura, Mirabaud). It takes real economy corporate action to decarbonize the economy, which is why engagement with companies across portfolios is so important (Hayley Robinson, Zurich Insurance Group). Net-zero alliances (such as the Glasglow Financial Alliance for Net Zero, GFANZ, or the Race To Zero campaign) act as a powerful catalyst of decarbonization. Alliances should seek engagement from companies in key sectors such as oil and gas and utilities which constitute about 20% of all industries but contribute to 80% of total emissions. To make net-zero commitments credible, alliances should choose science-based targets, focus on materiality, be honest about where they stand, have strong governance, a clear strategy, and precise measurement and reporting.

Engagement is one of the most useful tools to reach netzero objectives as it helps companies to adopt better practices. Contrary to divestment, it allows not only to decarbonize investors' portfolios but also to contribute to the decarbonization of the real economy. For engagement to have a tangible impact on the economy and society, it should:

- Be a collective effort;
- Adopt the approach of **double-materiality**: considering both transition and physical risks;
- Take place in an environment where the various stakeholders **trust** each other.

Climate Action 100+ is a source of inspiration in this regard. In general, investors have to be ready to invest time and resources, have clear engagement targets, and build coalitions to reach a critical mass. They must also escalate the engagement process if companies are unwilling to act (Matthias Narr, Ethos Services SA). You cannot do engagement well if you are not willing to also draw consequences and stand up for what you are asking for. Engagement cannot be disconnected from capital allocation (Anne Kellers, UZH). However, engagement is not always effective and can be very complicated depending on the region under scrutiny. While European investors want to reach net-zero, top investors in the US are instead asking to drop ESG. To this end, governmental policies and incentives play a huge role. Ultimately, engagement remains an adaptive challenge of leadership, not a technical one.

Climate change is a reality, and climate risk will affect companies sooner or later. Therefore, they need to systematically include mitigation measures to offset the effects of climate change (Julia Brandes, EBP Schweiz AG). The growing climate change-related cataclysms that the world is facing require increased preparedness from business owners and managers to face exposure to physical climate risk.





At the same time, global supply chains can increase their resilience by considering climate-related disruptions when developing adaptation strategies. However, the first step to achieving climate security is in the hands of companies that should transparently disclose potential climate risks. The Task Force on Climate-Related Financial Disclosures (TCFD) framework, organized across the four core pillars of governance, strategy, risk management, and metrics and targets, greatly helps public companies and other organizations to disclose climate-related risks and opportunities.

Climate-Related Macroeconomic and Financial Risks

Climate change can affect mace outcomes, financial markets, and through two main channels: clima physical risk and transition risk.

macroeconomic and institutions climate-induced

- Physical risk emerges from the interaction between higher average temperatures, more frequent weather extremes, and the exposure and vulnerability of economic systems to these hazards.
- Transition risk arises as a result of climate change policies. It might influence the financial system's resilience by causing economic losses due to stranded capital, lowering future profit prospects from carbon-intensive investments, and increasing price levels and price volatility.

Sources

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Emissions caused by infrastructures require immediate attention for the process of decarbonization. Energy and storage efficiency and transport infrastructure are crucial areas that require urgent intervention. The infrastructure industry has historically thrived with stability, and it is, at the same time, one of the most affected by climate change. While it is not always easy to change the mind of the riskaverse environment of infrastructures (Isidora Kosta, WEF), this change should come naturally as the infrastructure industry is one of the most exposed to climate risk. Public-private partnerships should back significant investments for an efficient transition of the infrastructure sector. Politicians should develop more interventionist policies. The transport sector continues to be a very polluting industry, and TPG's experience shows that transition to a more sustainable public transport system can be achieved.

Climate mitigation is an ecological necessity and an economic imperative, and we can only achieve this if people are convinced that we need to do something. At the same time, change can bring great opportunities. In the words of Dr. Thomas Stocker (University of Bern): "We are looking at a fourth industrial revolution. Industrial revolutions were always opportunities for nations, for the world, for companies." There is more than 2.3 trillion USD of market value to be generated in providing solutions to climate challenges. To capitalize upon this opportunity, we will need a global holistic approach that considers societal, governmental, and environmental metrics and solutions that do not destroy investment returns (Ruben Feldman, ZKB).









Social.

Events



Invest in Peace through Water: The Blue Peace Financing Initiative >







Finance as a Driver of Peace >























Even though finding guick and efficient solutions to the environmental problem is of the utmost importance, we should not overlook the social component of the transition. An example of why this is important is demonstrated by the "yellow vest" movement's reaction to the French government's environmental reform (Eric Salobir, Human Technology Foundation). The transition to net-zero will create winners and losers, and it is extremely important not to leave anyone behind. We need a Just Transition, an approach that combines climate action with social impact and community engagement.

The Social Aspects of ESG: Don't 'S'oil your Own Nest

A company has many social interactions, and understanding them is key to assessing its risks. While it is extremely challenging to define objective criteria for a company's social performance, there seems to be some consensus that these need to revolve around the observance of international human rights, with workers' rights playing an essential role. The 'S' dimension covers a company's relations with its workforce customers and society. relations with its workforce, customers, and society and includes, among other issues:

- Workforce health and safety, diversity, and training
- Customer and product responsibility Community relations and charitable activities.

In addition, to obtain and maintain a social license, in addition, to obtain and maintain a social incense, companies must prove that communities are better off because of their presence in an area. This requires mitigation of social impacts, effective and inclusive community engagement, integration of international human rights laws and norms, and support for sustainable community development. Note that the list of issues included in this category is evergrowing due to increasing social complexities.

- www.rl360.com
- Www.1500.com
 Waas (2021) The 'S' in ESG and International Labour Standards.
 Pelosi and Adamson (2016) Managing the "S" in ESG: The Case of Indigenous Peoples and Extractive Industries.



A single focus on reducing carbon dioxide emissions to achieve the net-zero roadmap by the year 2050 is insufficient. The transition must mitigate the negative social consequences and take advantage of its opportunities, fostering public support and countering any backlash. To this end, the International Labour Organization (ILO) set out the Just Transition principles in 2015. Such an approach entails strategies for implementation and engagement, target setting, and effective governance mechanisms.

Additionally, if done correctly, the economic transformation needed to tackle climate change can be a chance to fix many of the broader economic injustices that already exist in present-day society. "Climate change is already a brutal act of injustice in itself, and if net-zero is what we want, the Just Transition is how we do it; the Just Transition is either working for all or no one" (Brendan Curran, LSE). That being said, getting the Just Transition right will not be easy and is even more complicated due to difficulties retrieving and analyzing meaningful data and developing comprehensive metrics. It will take vision, courage, investment, tough conversations, and a willingness to work with a wide range of people.

Inclusive Growth.

The transition has the potential to generate high returns and contribute to economic growth. However, growth does not always homogeneously benefit everyone. SDG 8 promotes inclusive economic growth, full and productive employment, and decent work for all. Inclusive growth strategies focus on reducing inequality, going beyond GDP metrics, identifying and working with stakeholders instead of shareholders alone, and recognizing the value of investing in people and geographies that have been left behind in the last century of rapid globalization. It is also worth noting that the impact of climate change is primarily felt by the most vulnerable section of society. Therefore, inclusive growth and climate justice need to go hand-in-hand. Inequality is multidimensional and is rooted deeply within communities. Moreover, while globalization has contributed to closing the inequality gap between richer and poorer countries, inequality within countries has been rising for the last couple of decades, and the pandemic has further exacerbated it (Margareta Drzeniek, Horizon Group).

While in many developing and least developed countries, the role of universal healthcare and universal education is understood and worked on, the importance of creating an active labor market that can provide reliable and stable jobs for its population is still largely absent. Investing in human capital with a specific focus on the workforce helps counteract the "Great Resignation" effect, which has been found to have a substantial effect in developed countries as well.

To mitigate negative spillovers in developing countries and to be able to carry on inclusive growth, solutions must be locally sourced (Olasimbo Sojinrin, Solar Sister). Social entrepreneurs play a crucial role in this, as they can create businesses that not only provide a local solution but are also able to touch the social, cultural, and economic environment. Solar Sister has provided training and support to female entrepreneurs to deliver clean energy directly to homes in African rural communities, impacting more than three and a half million people. Their model has not only managed to address the issue of climate change by making clean energy sources more accessible but has also empowered women.





Cender Inequality.

The Solar Sister experience can be understood within Gender Lens Investment (GLI) framework. GLI refers to a strategy or an approach to investing that considers gender-based factors across the investment process to advance gender equality; it can help close the gap of gender inequality, especially in the financial sector. According to Krisztina Tora (GSG), "last year, European start-ups raised 100 billion and 20 billion in funds. How much venture capital has gone to women-led start-ups? Only 1%!"

Research shows that gender lens investment (GLI) significantly benefits the financial sector by fostering innovations, resilience, and profit while improving women's status; it is crucial for sustainable finance and has a **ripple effect** across many SDGs. GLI can be divided into three components:

- Getting women to participate meaningfully across the investment value chain. Today, very little venture capital goes to women-led businesses, although research shows higher returns and fewer risks for gender-diverse companies (Anita Bhatia, UN Women). It is estimated that world GDP could increase at a rate of 28 trillion USD annually by 2025 if women play the same roles as men in the labor market.
- Supporting and investing in businesses that offer services or products that benefit women and girls. Female consumers will control 15 trillion USD in consumer spending five years from now. This is the largest emerging market in the world.
- Dismantling structural gender inequalities. Gender equality accelerates many of the other SDGs. Investing in women can accelerate healthcare, food security, education, and environmental protection outcomes.

GLI standards and guidelines should revolve around three additional elements: assessment, alignment, and awareness. Concerning the first one, EDGE provides an excellent methodology and certification tool, and the 2X Collaborative is working on a standard that can be used in the investment industry. On the research side, Equileap (company-level research) and Tameo (fund-level research) provide excellent examples of how we should and analyze gender-related data most collect scientifically. However, GLI Investment alone will not contribute to the complete eradication of gender inequality; regulation is still crucial. Companies located in countries that have regulations for gender equality in place are doing significantly better in gender-diverse workplaces. We can create more equitable and fastgrowing societies by channeling more attention, capital, and laws to the gender imbalance.

Human Rights.

We need a wider lens when looking at S in the ESG (Christian Leitz, UBS). Human rights is one of the most important aspects covered by ESG. However, at least from an investment perspective, relevant stakeholders are usually risk-averse when dealing with human rights issues, in contrast to their risk-taking approach when dealing with climate-related matters.

An obvious culprit is the lack of consistent data and, subsequently, standards on the subject. Harmonizing the existing body of standards and the ones in development now is crucial for ensuring standardization and, in turn, comparability of data. Along with having standardized regulations worldwide, it is imperative to have **uniform definitions and terminology** of key grounding terms. In the same way, sustainability was put forward. Currently, varied meanings of the term "human rights" exist in different parts of the world, thereby adding a layer of ambiguity for the relevant stakeholders.

Moreover, the measurement of human rights impact is complex and case-specific. A company's performance in terms of its social impact should be consistently measured through industry-specific KPIs. Relevant certifications should also be issued by the governing body of specific industries, such as RSPO Certificates in the case of palm oil-related products. Finally, turnover, safety measures, and health standards should also be appropriately taken into account.





Social Infrastructures.

Most of the attention to ESG has been focused on the environmental performance of real estate, concentrating on energy transition and carbon emissions. However, there is a growing expectation that real estate's social impact should be considered. The mindset about social real estate investments has changed over the past ten years. Affordable housing was the only social concern, whereas social investments now include a much broader spectrum. Social impact real estate goals include affordable rent, shared ownership, extra care, and supported living for the elderly. The term now also broadens to biodiversity, community, and connectivity.

However, there is considerable heterogeneity in the real estate asset class, and it has been proven difficult to provide metrics for it. From an investment perspective, additional components are more expensive but provide lower risk in the long term. Longer leases correspond to fewer income fluctuations while providing stability to households. Investors should concentrate on riskadjusted returns. As current events show, the new real estate model should also consider potential risks arising from fluctuations in energy prices.

Healthcare and Sanitation.

Good health and well-being is SDG 3. As of 2021, there is a 130 billion USD annual gap in achieving this particular goal, and the gap will further increase to 370 billion USD in 2030. Health spending is chronically small in low- and middle-income countries. Funding is not the only issue, and if companies want to scale significantly, they should look into multi-market strategies (James Bair, Baraka).

Investor interest in commercially scalable health technologies is growing rapidly, which could help to meet system gaps, especially in emerging markets. On the bright side, more technological advancements in healthcare are being harnessed by entrepreneurs.
Landcent, for instance, is making great progress in eradicating malaria through upgrades in traditional bed nets and residual sprays, creating a long-lasting impact while actively gearing toward making the fight against malaria a commercially sustainable venture. According to Arun Prahbu (Landcent), one child dies every minute because of malaria, but current malaria prevention strategies can be improved by leveraging technological advances and filling funding gaps.

Other examples of companies focused on solving SDG 3 include Mamotest, which designed and deployed a digital platform to test the risk of breast cancer in patients, and the HearX Group, which developed a service delivery model to solve unaddressed hearing loss issues. Finally, through its digital brand "Viya," PSI aims to leverage digital and private sector techniques to serve public health goals.

When discussing scalability, sustainability, and investability in healthcare, investors mostly look for community-oriented companies that address health inequity and bring inaccessible services to people in need. Investments should be directed toward locally present companies which better understand the local market, politics, and policies.

Deeply connected with health systems are sanitation systems, the core of SDG 6.2. Activating national sanitation economies, namely a market-based approach to sanitation systems and social entrepreneurship, can unlock catalytic investment and improved access to sanitation, hygiene, and menstrual health. According to Dominic O'Neill (The Sanitation and Hygiene Fund): "we are still not making enough progress in the WASH sector, after building the bridge we also need to cross it". To make the sanitation economy an attractive opportunity for investors, we also need to change the narrative around it by increasing its scope so that both public and private sectors can focus on it (Nandita Kotwal, Sanivation). Improved sanitation creates dignity and social and economic value. In contrast, a bad sanitation economy has negative spillovers on sectors such as education, climate resilience, and, more generally, social and economic development.

Innovation is central to the success of the sanitation business (Ishtpreet Singh, Unilever). However, it is also necessary to change how asset owners view and value opportunities in the sector, as most are unfamiliar with its characteristics and potential.





The sanitation economy requires synergies between governments, the private sector, and other stakeholders to foster an ecosystem of entrepreneurship, using the local circular economy to bring sanitation solutions to scale while creating efficient and resilient infrastructures.



Environment, energy, food, poverty, water, and peace are inextricably linked. **Water**, in particular, could be a driver for peace, as the Blue Peace Finance Initiative shows. Water is crucial to numerous sustainability goals such as poverty reduction, water sanitation and hygiene (WASH), agriculture/irrigated land, forestry/ecotourism, energy /hydropower, migration, transport, market, as well as transport. Therefore, it is no wonder that when water sources are scarce or shared between countries there can be conflict in how they are managed. Blue Peace aims to build peace by addressing water-related issues collectively.

The multiple ways in which livelihoods are affected by responsible water management are hard to measure and have, therefore, been difficult to finance. Tensions between monetary return for private investors and the economic value of water on the one side and the responsible management of water resources with farreaching consequences on the other side continue to exist. Now more than ever, innovative finance is urgently needed to grant local water authorities international capital access and bypass traditional ODA's diverse conditionalities.

West Africa is a pioneer in water development in the continent. The Gambia River Basin Organization (OMVG) has a 40-year history of distributing water between Gambia, Senegal, Guinea, and Guinea-Bissau in a fair manner, despite different economic and political interests. The Blue Peace Financing Initiative serves as a bridge between the OMVG, multilateral institutions such as UNCFD, the Swiss Government, and private investors to promote access to capital for non-sovereign entities involved in water management. It will launch a bond in 2023. The first tranche of bonds will be worth between 300 and 500 million USD and will be primarily directed at institutional investors.

The pilot project is designed in cooperation with multiple international partners who assist in de-risking and creating new financing mechanisms, such as an index and a fund to be launched in the future. Indirectly, local entrepreneurs will benefit from infrastructure investments covered by the bond (for example, storage facilities for fishermen). The project serves as an example of how blended finance could have a strong environmental and social impact in low-income countries and should ideally be replicable in other parts of the world to bring peace and stability through water.

Peace is fundamental, yet there is limited understanding of it in the investor community. We need to make a greater effort to bring key topics to the forefront that the mainstream is not talking about (Marie-Laurie Schauferlberger, Sustainable Finance Geneva).

There are already dedicated, investible peace products on the market from public market funds like the Cadmos Peace Investment Fund to more innovative and blended instruments such as the Peace Dividend Initiative's VC fund, the ICRC's Humanitarian Impact Bong, and Innovest Advisory's Displaced Communities Fund. The Innovest fund offers a great example of how finance can be a driver of peace through secondary channels. By supporting the transition process of people displaced due to conflicts, they help them end their displacement and gain autonomy again and their economic power.

It is important that we recognize there is a spectrum of products already available for all types of investors from those willing to provide concessional financing to those seeking market returns. However, the sector needs more innovative forces to bridge the local community with private funds seeking the foremost impact and financial returns, creating new pilots, replicating and scaling.

Also, a clear definition of peace to avoid mislabeling is required. Measuring peace does not have to mean solving historical conflict but also includes making meaningful contributions to the social cohesion of local communities. Peace and stability are obvious characteristics of profitable environments and investors must seek to "do no harm" as a first step (Gerald Pachoud, TrustWorks Global). For instance, large MNEs whose supply chains are largely based in water-scarce regions should look into their footprint because of the traditional correlation between water scarcity and Investment conflict. managers targeting these companies should be aware of such factors when making investment decisions.











Governance.

Events



> Implementing Sustainability in Wealth Management



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> Sustainability and impact measurement and reporting: Where do we stand?









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To implement a just transition efficiently, companies need to be adequately managed, which is why the third component of ESG is also very important. In other words: "If you don't get the G right, you can't get E and S right" (Christian Leitz, UBS). Good governance includes a broad range of features, from proper accounting and whistleblower protection to independent and diverse composition of boards of directors. As is the case with the other two components of ESG, an official definition is still missing. Accountability and transparency are two key concepts gaining more and more relevance when it comes to good governance. These include, among other things, proper reporting of a company's emissions, a key indicator for investors and public entities, and the success of the transition to a sustainable economy.

Governance Aspects of ESG: Good Management Entails Good Profits

The 'G' dimension captures the systems in place for management to act in the best interests of its long-term shareholders, which include:

- Shareholder rights Composition of boards of directors (independence and diversit
- Management compensation policy
- Fraud and bribery

Investors' increasing interest and pressure to have accurate and reliable data for sustainable investing contributed to the inclusion of transparency and accountability among the necessary characteristics of good management. The 'C' aspect of ESC is crucial as a firm must be appropriately managed first and firm must be appropriately managed first and foremost, and profitability and sustainability must proceed on parallel lines. The EU SFDR includes Anti-Corruption Measures, Gender Pay Gap, Excessive CEO Board Gender Insufficient Whistleblower Protection as the main governance indicators

Source: Matos (2020) ESG and Responsible Institutional Investing Around the World.





"Greenwashing" is a major problem when discussing ESG investing, particularly and impact regarding transparency and accountability. The EU Action Plan for Financing Sustainable Growth defines greenwashing as using marketing strategies to portray an activity or a policy as environmentally friendly when they are not. However, as we do not have a unique definition of a "green investment," we also do not have a legal definition of greenwashing. Greenwashing obstacles the transition to a sustainable economy as it diverts capital toward non-sustainable activities and simultaneously reduces the overall level of trust in green investments.

International and **National "Green"** Standards.

There is an international understanding that to fight greenwashing, we need to create a common legal framework that allows agents in the financial market to identify whether a product is green. The EU is adopting a regulatory approach (hard laws), while Switzerland has a self-regulatory approach (recommendations). In the Swiss approach, market agents address the issue, and the State intervenes when market inefficiencies emerge. From this perspective, the Swiss Climate Scores, launched in June 2022, are a useful tool to assess how climate-friendly products are. Transparency is key to protecting investors and substantiating claims, and improved transparency can be achieved by collecting granular data at the corporate, banking, and investment level.

We need to improve how we gather, manage and interpret data by including all the relevant stakeholders in the process (Patrick Schmucki, KPMG). Unfortunately, since disclosure is still voluntary, many data gaps remain. According to Hortense Bioy (Morningstar), less than 20% of the currently available data on GHG emissions is reported by companies; the rest is estimated by data providers. In addition, only 6% of companies disclose Scope 3 emissions. Not to mention that GHG emissions are only part of the problem. Data on biodiversity and social issues are also critical but even more difficult to come by.

However, data alone cannot prevent greenwashing. First and foremost, it is not about the quantity but the quality of data (Christophe Braun, Capital Group); we need to gather accurate and timely data, which is not easy when data providers offer such different products. Secondly, data is not always being used or used in the right way. Too much focus on (unreliable) data may even exacerbate greenwashing (Damian Payiatakis, Barclays) and damage the credibility of ESG investing.

Transparency is necessary but not sufficient. If we do not share a common language, it leads nowhere. This is a real challenge, and everything becomes more difficult if we are not transparent about intentions and results (Eric Borremans, Pictet). In addition, many companies feel pressured to make grandiose commitments that are not realistic or that are so long-term that their current leadership will never see through. If capital is allocated only according to commitments and not actual action, there will be massive misallocations. Generally, we have to be realistic about where businesses and investors can make a difference and where regulators and governments need to step in (Philipp Aeby, RepRisk).

Moreover, while the numerous voluntary standards have enabled more investors to comply with ESG frameworks, their large number has also caused confusion. Global standardization and a common taxonomy are necessary. Regulation is a powerful tool that can help mainstream commitment (Elodie Feller, UNEP Financial Initiative). After agreeing on an international set of standards and rules, it will be easier for national authorities to implement the necessary arrangements.

Scope of Emissions

According to the Greenhouse Gas Protocol (GHGP), GHG emissions can be divided into three categories:

- Scope 1: includes emissions directly made by a company, including, for instance, fuel combustion, company vehicles, or fugitive emissions.
- Scope 2: covers indirect GHG emissions from the consumption of purchased electricity, heat, cooling, or steam.
- Scope 3: accounts for all other indirect emissions. This category can group all the emissions up and down a company's value chain, including, but not limited to, purchased goods and services, business travels, waste disposal, investments, leased assets, franchises, etc.



There is an increasing consensus in the G20 that the transition finance framework should not focus on what is already "green now" but should, instead, identify leaders and laggards in the whole economy. It is of the utmost importance to capture scope 3 emissions as soon as possible and have science-based standards easily verifiable by international and national authorities. The Swiss Climate Scores anticipate these future developments by establishing best practice transparency on the Paris Agreement alignments of financial investment. With this score, Switzerland has compiled a state-of-the-art national set of internationally established criteria for climate-aligned investing (Daniela Stoffel, SIF). Now, it is truly up to the industry to use them as a competitive advantage.

Corporate Solutions.

All businesses impact nature and all businesses depend on nature. According to the World Economic Forum, 44 trillion USD (around half of the global GDP) is generated yearly by activities that are either moderately or highly dependent on nature. The economy is embedded in the biosphere and not external to it. The nascent Taskforce on Nature-related Financial Disclosures (TNFD) framework aims to enable organizations to report and act on evolving nature-related risks.

The biggest challenge within the TNFD framework is to develop meaningful and workable KPIs on a company's nature-related possible impact. Within a general and standardized framework, KPIs will still need to be flexible enough to control for structural differences across sectors and locations. Sometimes, "just boiling impact measurement into a matrix is not sufficient. We need to add qualitative context to our data for holistic reporting" (Stefan Lugstenmann, LGT Capital Partners). Properly interpreting these indices can be cumbersome. However, we should embrace the complexity of this issue (Simone Dettling, UNEP FI). To this end, there are a range of approaches and solutions that exist. One corporate example is Nestlé who decided to review and disclose the impact of its entire supply chain — from GHG emissions (Scope 1-3), to waste disposal and impact on biodiversity.

One example of a service provider is BlueMark who aims to properly recognize impact ventures depending on the context in which they are implemented and scaling the amount of capital needed to address sustainability challenges.

Together with private investors and impact firms, banks play a key role in the transition as, even today, they are still heavily financing high-emissions sectors. That does not necessarily mean that banks are not moving in the right direction. Jörg Gasser (SBA) argues that divesting is not always the right move as it might not necessarily reduce CO2 emission. Instead, banks and asset managers should focus on the transition and push companies into more sustainable venues. Lately, there has been a paradigm shift, with banks moving to the center of setting impact targets, not necessarily from a social responsibility perspective, but to mitigate environmental and social risks. Banks are now testing climate-related financial disclosures and employing forward-looking methodologies to identify possible climate-related risks. The Net Zero Banking Alliance (NZBA) has played an essential role in elevating sustainability into the corporate strategy of banks. The alliance relies on a principlesbased approach that limits reliance on regulation and instead harnesses "self-regulation,", especially for smaller entities that might find the costs of regulation and reporting too high. The Swiss Banking Association and the Asset Management Association Switzerland (AMAS) have identified three impactful self-regulations:

- Integration of ESG preferences and risks
- Promotion of energy efficiency
- Setting KPI standards for asset managers

Other priorities include partnerships with academic institutions to offer innovative products in sustainability to customers, improving the quality and consistency of datasets using standardized KPIs, and increasing the transparency of climate impact (Yves Mirabaud, Mirabaud Group).

If in the financial sector and real economy, C-suite were among the key actors recognizing the need to embrace the sustainable agenda, climate and social emergencies are now **pushing boards** to also increasingly embed sustainability considerations into their practices. To this end, The Swiss Boards for Agenda 2030 (SBA 2030) alliance was launched by B Lab Switzerland and InTent to engage Swiss Board Members to commit their companies to a high level of accountability to drive sustainability and business resilience.





Generally, boards still take a compliance risk perspective rather than one gear to value creation, and this needs to change as fiduciary duty now has to include sustainability. Companies can no longer be run on the sole principle of short-term profit maximization. Introducing diversity in boards, viewing sustainability as an opportunity, not a risk, and creating sustainability committees are all valuable contributions to the "green" cause. Boards do not need technical expertise on sustainable topics per se, but more education is necessary for them to join the conversation and understand the challenges ahead (Julia Binder, IMD Business School).





Staff education, awareness, training, and skills on ESG topics are top priorities for wealth management (Jean-Philippe Desmartin, Edmond de Rothschild). There is still a consistent lack of knowledge about sustainability from the client side. Clients are generally more reactive than proactive about sustainability, reducing the demand for ESG products. The financial industry is the bridge between people with money and people with ideas, and wealth managers can serve as entry points for private asset owners into sustainable investing. However, wealth managers' primary goal is to help their clients to preserve their wealth from one generation to the next. Private bankers are not "here to give lessons or to make philosophy, but to manage the money, the wealth and the portfolio of the clients," in the words of Frédéric Potelle (Bordier & Cie). For this reason, even though the Association of Swiss Assets and Wealth Management Banks (VAV) aims to foster the prioritization of sustainable objectives in line with the Paris Agreement, the big push should come from world leaders, policymakers, and CEOs of major corporations.

Impact Measurement and Reporting.

Investors need impact measurement systems and metrics to rationalize the operating principles for impact management. Where do we stand when it comes to impact measurement and management?

First of all, precise definitions are required. Many terms and concepts related to sustainable finance are used interchangeably, which is a dangerous practice as it confuses investors and the general public. ESG is about how environmental, social, and governance factors affect financial value and company performance. Ultimately, it is a risk management and investment framework. On the other hand, the International Finance Corporation (IFC) defines **Impact Investing** as "investments made into companies, organizations, vehicles, and funds with the intent to contribute to measurable positive social, economic and environmental impact alongside financial returns."



The vagueness of ESG data, lack of quantification, and transparency are the biggest impediments to responsible investment. Even though organizations such as the Swiss Lab For Sustainable Finance (SL4SF) are working toward making impact investments more measurable, the road ahead is still uncertain. Roland Dominicé (Symbiotics) offered a short-term solution: "For more credibility in impact measurement, we need simple ways to report impact and then have external people audit us."

While commonly agreed and easily understood measurement is necessary, let's not "lose our North Star. Make sure we don't get stuck in measurement details and forget our biggest goal: a more circular, inclusive and low-carbon economy" (Ivan Pictet, Pictet & Fondation Portail des Nations).







Impact Investing.

Events





The core characteristics of impact investing include intentionally contributing to positive social and environmental impact, using evidence and impact data in investment design, and managing and measuring impact performance while also contributing to the growth of impact investing. How can we then build impactful enterprises, and, more importantly, how do you incentivize investors to put money in them, especially in the early stages of their creation?

Despite wanting to create an impact through their investments, impact investors largely continue to expect, first and foremost, the ventures they finance to be economically viable. This reconnects to the fact that while a company needs to have an economic and social impact, good governance essentially contributes to its success. Some crucial considerations that investors take include the **relevance and frequency of the problem** that the company is trying to solve, the **size of the potential market**, the **unit values and economics of the product** along with its strength, the competition, and the capacity of the founding team to **scale up**. Economic viability should be matched by relevant impact KPIs as, in the end, we are not talking about traditional investing but impact.

Sustainable bonds are among the most popular financing vehicles for impact investing and have grown substantially over the past few years. Developed markets are the largest issuers of green bonds. In emerging markets, 60% are issued by China. Most importantly, the majority of green bonds are issued by the public sector, highlighting the early risks the public sector is willing to undertake in the green transition. As Symbiotics' experience shows, issuing green bonds in tranches is more efficient as, most of the time, impact borrowers do not need constant financing. In contrast, investors still need a structured financial product.



For example, Sun King has recently launched two green bonds for 17 million USD , one of the largest solar companies in Africa and Asia and the world's largest offgrid pay-as-you-go model. A PAYGO system can be an innovative way of financing solar energy access to remote and inconsistent-grid communities. Sun King allows households to pay for solar panels and appliances in installments and take ownership of these goods as they pay while concurrently reducing monthly allocation to energy and increasing energy usage. Sun King still faces challenges, including scalability in different markets, waste disposal issues, and macroeconomic risks due to currency volatility in some of the markets it is working in. Concerning this last problem, ASN representative, Rosemarijn van der Meij, warns that having an exchange rate hedging strategy is of great importance to reduce associated risks.

Institutional investors' presence in impact investing is still quite small, especially among Swiss pension funds, primarily due to a lack of knowledge. On the other hand, the European Investment Fund (EIF) is increasingly engaging in impact investments, especially with SMEs. EIF's role is to act as a market catalyst investing in funds with not yet realized track records by providing a quality seal. Its impact performance methodology defines up to 5 impact indicators and sets quantifiable targets. At the same time, they keep monitoring and sharing companies' progress with the public to foster impact investing.

Most of the impact investments discussed above are debt-oriented. Equity financing can have equally, if not greater, effects on impact firms. The Global Impact Investing Network (GIIN) has recently drafted a series of guidelines to integrate impact into an investment strategy based on listed equities. After developing a strategy based on an articulate problem statement and a theory of change, funds should identify positive impact solutions to this problem by looking at mission statements and products portfolio. Afterward, investors should engage to accelerate companies' contributions to the impact objectives of the fund. Finally, for completeness of information, ex-post measurements and management of social and environmental outcomes should be carried out. ESG Exchange Traded Funds (ETFs) are another example of financial instruments that, although small in size at the moment, have the potential to grow into a mass market investment vehicle for sustainable development (Virgile Peret, Observatoire de la Finance). While equities represent ownership stakes in corporations, ETFs are collections of securities such as equities, bonds, and options that are bought and sold like stocks. Adam Marszk and Ewa Lechman's (Gdańsk University of Technology) recent study on the environmental impact of more than 600 ETFs across 5 European markets (France, Germany, Italy, Switzerland, and the UK) shows that ESG ETFs exhibit a strong positive correlation with factors such as renewable electricity output, financial development, stock market capitalization, bank deposits, human development index and investments in R&D. In addition, the growth of ESG ETFs have a strong negative correlation with CO2 emissions, CO2 intensity of GDP, domestic government health expenditure, water stress, and food insecurity, among other things.

That being said, the strong positive impact of sustainable ETFs on almost all environmental-related factors is promising, even though, in this case, correlation does not necessarily imply causation. There is a growing view that ESG ETFs are unlikely to create additional positive impact given their passive nature. A key contention is that publicly listed investments have limited positive impact as shareholders forfeit voting rights under ETFs and hence have limited influence over the company. Just like divesting from a harmful company does not reduce the damage caused, investing in a sustainable company does not necessarily advance environmental and social benefits (Julie Segal, Environmental Defence Canada).

ETFs have also led to intense ownership concentration by big asset managers, which, combined with low oversight under ETFs, leads to lower monitoring. Furthermore, by definition, ETFs follow the market, benefiting from the natural trend of market growth. This raises a key concern about whether ETFs can create additional impact by being market followers. Another major challenge lies with the self-identification of funds as ESG-compliant. Most ESG rating providers focus on how companies manage their ESG-related risk rather than the impact created. A company can lead on any one of E, S, or G while failing on others. While mass movement into ETFs can suggest to companies that investors and consumers prefer sustainability, the real solution lies in a clear definition of various funds, more specifically, in whether the ETF is just avoiding ESG risk or is trying to create a positive impact.



One might then ask, what is the current state of impact funds and the impact sector in general? Tameo Analytics's Impact Fund Report 2022 on private debt and equity impact funds in emerging markets aim to answer this question. Impact funds form a \$77 billion industry that is very heterogeneous within its ranks. Switzerland is one, if not the most significant center of this universe, with 15% of impact funds headquartered here. The Report highlights some key stylized facts:

- The majority of impact funds (64%) are sourced from private institutional investors
- Microfinance exposure (at least in the sample of 198 global funds representing 40% of the market) continues to remain high
- Most impact funds hold almost exclusively bonds and not equity

Microfinance continues to remain a major investment sector, especially due to the increasing expansion of Fintech. However, current economic crises and increasing interest rates prevent capital from flowing as smoothly as it should. Investors are still eager to embark on impact journeys. However, expectations, interests, and results are not always perfectly aligned. Investors are still mostly interested in returns rather than impact. They want to have more grounded, local information about the resilience of the markets they are investing in, especially during times of crisis. These concerns greatly impede microfinance potentials. This is puzzling as microfinance projects have a strong track record given their almost constant positive yields since their inception worldwide. Gender Lens Investing is still not a completely mainstream practice, but Fintech is increasingly providing solutions by reaching women directly in their homes, especially in emerging and developing economies.





Emerging and Developing Markets.

Events





It is impossible to think of solutions to climate change without considering emerging and developing countries. For this reason, impact investing has recently shifted its focus to these markets. Research shows that the costs of a decade of inaction (between 2020 and 2030) in these regions would amount to approximately 1 trillion USD (Niels Holm-Nielsen, World Bank). A developing country such as Vietnam is expected to lose 12-14.5% of GDP yearly by 2050 and have over 1 million people in extreme poverty by 2030 due to the extreme consequences of climate change unless appropriate adaptation and mitigation measures are put in place (Le Thi Tuyet Mai, Permanent Mission of the S.R. of Viet Nam).

While different stakeholders would agree that investments toward Emerging Market Economies (EMEs) should be scaled up as soon as possible, these efforts may be hindered by arduous challenges belonging to both the public and private spheres:

- There is, sometimes, a significant discrepancy between how ministries formulate adaptation strategies and how disaster agencies look at resilience plans, which prevents synergies and creates inconsistent public budgets for actual adaptation needs.
- The continuous cycle of disaster, response, recovery, and new disaster prevents governments from formulating plans for allocating financial flows to long-term adaptation schemes.
- High sovereign debt makes states dependent on capital through private markets, but markets are often unwilling due to the high risks.
- Financing is predominantly focused on **emergency response** and not on adaptation.
- States often do not have **regulatory frameworks** for incorporating disaster risks in public and private budgets.

• Climate change increases **overall disaster risks globally**, lowering the market risk appetite and exposing supply chains highly.

The solutions to these problems can come from cooperation from international and private actors. The former can help build technological and financial capacity in institutions and develop replicable approaches to resilience financing. And the latter can internalize disaster risk within their ESG analysis, establish commercially viable vehicles through resilience bonds, and, finally, de-risk resilience investments by designing blended finance solutions to reduce capital costs.

Another set of practical solutions could come from the insurance sector. Sovereign insurance can help States by having markets absorb part of the disaster risk, providing fiscal space for investing in resilience, as well as a source of finance when disasters hit. This type of insurance should be seen uniquely as complements to other sources of funding, which should be diversified through layered risk-finance approaches. At the same time, distributing insurance to SMEs in developing countries, thereby providing relief to the most vulnerable segments of society in the aftermath of a natural disaster, could go a long way in de-risking investments in these SMEs. This would decrease the costs of capital for adaptation investments. For this type of downstream insurance to succeed, it requires:

- Digital simplicity of its products.
- Collaborations with local partners.
- International and public support to lower insurance premiums in the first stages of the projects.

The last two points, in particular, highlight the necessity for local governments to increase awareness and foster engagement among the different sectors of their societies.



Remittances are a progressively relevant financial tool for impact investments and impact entrepreneurship in emerging and developing markets. Remittance flows and Foreign Direct Investment (FDI) have largely supplanted official development assistance (ODA) in magnitude and effectiveness since the mid-2000s. Besides being more stable against cyclic shocks, remittance investments can strongly enhance individual and household capabilities of both the lower and middle-income strata of developing economies, with family businesses usually being the receivers. Diaspora concentration and geographical proximity magnify the remittance impact on venture investments in the home country by minimizing costs, enhancing information sharing, and increasing productivity. Costs of transferring money, however, are still very high, especially for poorer immigrants. While technological innovations (i.e., cryptocurrencies) could greatly enhance their reach and scope, obstacles such as high conversion costs, excessive volatility effects, and inadequate legal frameworks still pose a threat.

Remittances have been found to have a significant impact, especially in Africa. An increased flow of this type of funds could contribute significantly to its development, as Africa has the skills, knowledge, and substantial untapped capital to achieve significant economic growth and success. More generally, Africa has seen rapid growth in investment in recent years.

There has been an increase in venture capital funding on the continent compared to previous times. This is mainly due to the growth of credibility in African businesses. National policies have, in some cases, contributed to closing the financing gap, especially for impact investing, as in the case of Nigeria's diversification away from oil and gas and gender-inclusive reforms (Zainab Shamsuna Ahmed, Nigerian Minister of Finance). However, adequately addressing SMEs remains a big issue due to old-fashioned vetting practices not conducive to SMEs. Partnerships will play an important role in addressing the African investment gap, and governments do not have the fiscal capacity to address it alone. Private institutional investors, development finance institutions, and governments have to come together to tackle the problem without forgetting to include African corporate investors. One of the main problems to focus on is agriculture. Most African countries continue to spend over 50% of their income on agriculture compared to 7% in the West. Reducing the cost of agriculture would enable people to use their money differently and, perhaps, more effectively.





SMEs play a significant role in the economy of not only Africa but of most lower and middle-income countries. Even though technological innovation in these countries has been steadily increasing, its adoption from SMEs is still at primal levels. Software as a Service (Saas) companies Dastgyr and Omnibiz provide technology to small and medium-sized companies in emerging and developing markets to enable them to scale. Both business models focus on procurement, whether helping the distribution of suppliers (Dastgyr) or retailers (Omnibiz). In addition, both companies go to great lengths to track their clients' SDG impact, such as Dastgyr mandating CO2 emissions to be recorded by its customers.

This is also central to UNDP's financial strategy, especially in Latin American and Caribbean countries. Sahba Sobhani and Tenke Zoltani (UNDP) stressed that almost all of their debt issuances are tied to gender and the environment. The increasing trend of issuing green bonds in favor of SMEs in countries such as Mexico and Ecuador shows the interest of investors in such financial instruments; however, a sound framework is necessary for making them reasonably profitable.

The goal is then to "build a bridge between institutional investors and the real economy in developing markets, (..) while working with financial institutions that strike the right balance between conservatism and risk" (Yvan Renaud, Symbiotics). The untapped potential of MSMEs in developing countries is huge, and investing in them could bring about good financial returns and great environmental and social outcomes. However, MSMEs face various challenges when accessing finance due to the unavailability of adequate quality documentation and background checks, generally low profit-to-risk ratios, and a lack of **regular monitoring** of business practices.

Accelerate2030, a multi-stakeholder program co-initiated by Impact Hub Geneva and UNDP, identifies the most promising entrepreneurs in over 30 emerging and developing countries and provides them with direct support, unlocking finance, establishing global partnerships, and facilitating access to global supply chains. Similarly, Unergy, whose business strategy is to employ blockchain technology to decentralize protocols for financing clean energy projects in Latin America, also aims at building bridges between developed and emerging and developing countries where impact entrepreneurs face great challenges mostly due to a lack of understanding from institutional buyers and fragmentation of impact investors.

As highlighted by the Tanzania Association of Business Development and the International Trade Center (ITC) experience, partnerships could offer an immediate solution to support MSMEs in gaining access to required financing. This collaboration was launched at Building Bridges 2021 and consisted of bundling Business Development Services with the loan application process and providing post-financing support. By relying on intermediaries to analyze and assess business and compliance practices to prepare pre-qualification files for several MSMEs, smooth business-to-business linkages and communication between borrowers and credit-risk officers were greatly facilitated. This model proved to be especially popular among investors as it assured them of quality risk mitigation practices and reduced their Know-Your-Customer (KYC) processes. The post-financing services also provided businesses with credibility around their sustainable business models and reporting standards and monitoring. The impact of such a model translated into a sizable increase in successful applications for financing, with a majority of loans going to women-owned enterprises. Small businesses usually have an inefficient financing structure due to a lack of experience. The intermediary intervention outlined here helped assure investors of appropriate risk mitigation, encouraging money to flow into productive and sustainable businesses.











Leading action in sustainable finance



CREDIT SUISSE



Why biodiversity matters?

As part of Credit Suisse's work on sustainability, the company has focused on a range of Natural Capitalrelated topics including the Food System, Deforestation, Reforestation and Voluntary Carbon markets. In their most recent publication, they explore the trends and challenges associated with Biodiversity. This represents one of the key issues for investors given that human civilization is ultimately dependent on a healthy nature and biodiversity.

A healthy biodiversity maintains ecosystems which in turn clean the water, purify the air, maintain the soil, regulate the climate, recycle nutrients and provide food. Biodiversity is both the foundation of our economy and the essential natural support system for life on planet earth. Additional reasons that support the relevance of biodiversity include:

- Our food system depends on healthy biodiversity: The food system is built on nature, both in terms of land but also in terms of species. For example, we rely on pollinators for over 75% of our global food crop types. Regrettably, due to the overuse of pesticides, IPBES estimates that US\$235-577bn in annual value of global crop output is now at risk due to pollinator loss.
- Biodiversity provides essential raw materials for medicines. Historically, over 50% of commercially available drugs were developed using bioactive compounds extracted (or patterned) from non-human species (Alves and Rosa 2007). Some of these include the single most effective agent for inducing remission in acute myelocytic leukemia and exenatide, a synthetic version of a compound found in the saliva of the Gila monster, which is used by as many as two million people with type 2 diabetes.
- Tipping points and climate change: Even if global temperatures start to decrease after peaking this century due to climate change, biodiversity risks are likely to persist for a long time. Even if we collectively manage to reverse global warming before species are irreversibly lost, the ecological disruption caused by unsafe temperatures could persist for an additional half-century or more.

The Stern Review on the Economics of Climate Change (2006) described climate change as the largest-ever market failure. The Dasgupta Review on The Economics of Biodiversity (2021) called the biodiversity crisis as a "deep-rooted, widespread institutional failure" and defines our institutions as "unfit to manage the externalities." The Dasgupta Review questions whether biodiversity loss is the next market failure or simply a failure of contemporary conceptions.

The 2019 global assessment of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) showed that a business-as-usual approach is unacceptable given that at least 40% of the world's economy and 80% of the needs of the developing countries are derived from biological resources. A worsening biodiversity would put this at risk which according to estimates from the World Economic Forum represents a total economic value of US\$44trn.

The risk of biodiversity and nature loss looms large with more than half of the world's total GDP moderately or highly dependent on nature and its services. The three sectors with the greatest exposure to nature generate close to US\$8 trillion of gross value added: construction (US\$4trn); agriculture (US\$2.5trn); and food and beverages (US\$1.4trn). The Economics of Ecosystems and Biodiversity (TEEB) initiative estimates that global sustainable business opportunities from investing in natural resources could be worth US\$2 to 6trn by 2050. However, if biodiversity loss continues at its current rate, we could lose US\$ 338bn per year.







The circular bioeconomy: putting people and nature first.

Lombard Odier is a founding partner of the Circular Bioeconomy Alliance (CBA), a network of companies, intergovernmental organizations, investors and research organizations working together to accelerate the transition to a circular bioeconomy. Established by His Majesty King Charles III in 2020, the CBA is building a global network of "Living Labs", public-private partnerships that use environmental restoration projects to create nature-positive livelihoods for indigenous and local communities, and as a starting point to develop circular bioeconomy value chains.

One such Living Lab is the indigenous-led Amazon Sacred Headwaters Initiative of the Ecuadorian and Peruvian Amazon. In Spring 2022, Lombard Odier and the CBA joined the Amazon Sacred Headwaters Initiative on a journey to build a shared vision amongst indigenous communities, global organizations, governments, philanthropists and investors in protecting the region's rainforests and biodiversity, tackling industrial scale resource extraction and living in harmony with nature.

Covering an area measuring 35 million hectares, and home to 600,000 people from more than 30 indigenous communities, the Amazon Sacred Headwaters Initiative is the most ambitious environmental project ever undertaken. The project aims to accelerate rainforest restoration in Ecuador and Peru while creating new forest-based value chains around cocoa, vanilla and medicinal plants, and financing a regenerative approach to forest preservation that combines modern innovation with ancient wisdom.

Lombard Odier's Natural Capital Strategy, inspired by the CBA and developed under the aegis of His Majesty King Charles III's Sustainable Markets Initiative, seeks to extend this vision of an economy that supports, rather than exploits, nature. Today, around 100 billion tonnes of resources are extracted from the earth every year. At the same time 70 billion tonnes of waste are produced annually, over half in the form of emissions or untraced pollution. And much of this vast extraction and waste goes toward creating products that add only short-term value.

This Natural Capital Strategy seeks solutions in nature itself. By targeting companies that harness nature's untapped potential, the strategy drives growth-phase technologies and creates new forms of economic value:

- new, naturally-derived materials, such as bio-based polymers and composites, that could replace today's synthetic materials and be used for bio-fuel at the end of life;
- new medicines from forests, oceans and soils;
- new food production systems that restore forests and degraded land;
- and investments in the carbon sequestration power of forests and peat-land, through carbon markets that help to tackle the climate challenge while providing compensation for the vital environmental services undertaken by indigenous communities, who are often on the front-line of protecting the world's last remaining undisturbed forests and wildernesses.

Lombard Odier's work with the CBA recognizes the central importance of these communities in creating the circular bioeconomy. Disrupting the economic incentives that lead to rainforest destruction and degradation will only be achieved in partnership with them, by building shared values and objectives, and learning from their generational wisdom. As the world breaches multiple climate and environmental tipping points it is vital that we adopt indigenous peoples' approach to protecting our planet.







Supporting energy transitions and biodiversity protection.

The climate emergency is now being taken into account on a large scale by states, citizens and businesses. BNP Paribas' mission is to contribute to a responsible and sustainable economy and is striving to address the fundamental challenges of today with regard to the environment, local development and social inclusion.

At the heart of the BNP Paribas Group's company purpose and 2022-2025 strategic plan lies its ambition to become a leader in sustainable finance. Over the past years, BNP Paribas has already taken major commitments to address the climate crisis and advance the energy transition. In that respect, BNP Paribas supports a wide range of players, initiatives and innovations designed to support clean technologies with the objective of a net-zero economy by 2050. As part of this goal, BNP Paribas took a step forward by joining in 2021, as a founding member, the Net-Zero Banking Alliance, created by the UN Environment Finance Initiative (UNEP FI). This alliance brings together some 40 banks sharing strong ambitions to bring to net-zero greenhouse gas emissions induced through financial flows.

Since 2015, BNP Paribas has been accelerating the financing of all activities that contribute to a decarbonized economy by setting ambitious — regularly exceeded — targets for financing renewable energies, by investing proactively in green tech and by being one of the leading banks issuing green and sustainable bonds. BNP Paribas has also made an initial interim commitment to reduce by 10% its credit exposure to oil and gas exploration and production activities by 2025, and will dedicate 200 billion euros by 2025 to support its clients' decarbonization. BNP Paribas is thus choosing a more ambitious path than that of the International Energy Agency's Sustainable Development scenario, which is aligned with the objectives of the Paris Agreement.

Moreover, with the Climate Analytics and Alignment report published by BNP Paribas for the first time in 2022, the Group directly addresses how it can assist the transition of three highly emitting sectors: power generation, oil and gas, and automotive.

In addition, BNP Paribas is deploying transversal actions, in particular to improve knowledge of impacts on biodiversity and monitoring tools: supporting R&D, targeted partnerships, and initiatives to raise awareness among internal and external stakeholders about current natural emergencies.





Edmond de Rothschild



A private equity platform to preserve natural resources and create economic added value for local communities.

Through its Private Equity Platform, Edmond de Rothschild has been committed to taking concrete action to reduce urban sprawl, invest in sustainable agricultural systems based on farmers' know-how and develop food solutions that meet the major challenges facing our society. To do this, Edmond de Rothschild combines sustainability and profitability.

Mitigating the effects of climate change in Africa

The African continent has a specific climatic context, based on the triptych: low levels of consumption, low greenhouse gas emissions (0.4 t GHG/capita compared to 6.4 in the European Union and 15 in the United States) and high exposure to the consequences of climate change, leading to both climate and social problems.

Deteriorating climatic conditions have high negative impacts on the most fragile regions and populations, exacerbating poverty and hunger, which can lead to forced migration. The impact of climate change is especially important for those populations most excluded from social protection, financial inclusion, economic activities and access to health care which reinforces inequalities. Women on the continent are largely concerned by these risks, which could affect them disproportionately.

Supporting more sustainable agriculture

One of the responsibilities of Amethis, Edmond de Rothschild Private Equity's growth strategy for Africa, is to contribute to better natural resource management and improved carbon efficiency in the businesses they support. This contribution is crucial to address natural resource scarcity, contribute to the fight against climate change and develop competitive and energy efficient assets. Pioneer of the micro irrigation sector in Morocco, the company Magriser in which Amethis is investing since 2021, distributes and installs complete micro irrigation and solar pumping systems. Agriculture accounts for 70% of total water consumption in Morocco, a country that also suffers from water stress due to its rapid urbanization, population growth and economic development. By providing the exact amount of water needed rather than spreading it around, micro irrigation systems can save between 20 and 60% of the water needed to irrigate a field compared to traditional irrigation methods. The company also offers solar pumping systems, which reduce operating costs and the environmental footprint. These solar pumps are used for filling tanks or for cultivation.

Key figures

Approximately 100 million m3 of water saved / year, equivalent to the annual consumption of 4 million Moroccans, 600,000km of micro-irrigation pipes installed.

Z E R O





Climate change: big challenge, big opportunity.

To achieve a 70% reduction in greenhouse gas emissions by 2050, and assuming the economy grows by an estimated 5% per annum, the global economy's efficiency must be increased at a fast pace. What does this mean for investors?

Climate change is one of the biggest challenges the world has ever faced. Things are accelerating and time is running out. In an effort to act in the face of adversity, nations have come together and pledged to limit global warming to no more than 2°C, with best efforts to keep it below 1.5°C, compared with preindustrial temperatures, through the Paris Agreement. Its binding commitments have come live in 2020 and nations have legal obligations to follow through on their commitments. However, their commitments will not be enough. The total greenhouse gas (GHG) emissions allowed under these individual national targets are far beyond what scientists estimate as the maximum for a successful global warming containment. It therefore falls to the private sector to do its part and help reduce pollution by at least 70% before 2050 and enhance carbon sinking proliferation to reach carbon-neutrality.

IPCC's recommended plan of action toward net zero under a 2°C temperature increase relative to pre-industrial levels:



To achieve a 70% reduction in greenhouse gas emissions by 2050, the global economy's efficiency, in terms of how much pollution is created for the generated GDP, will have to improve by a factor of 15.

With this incredible challenge comes a very real set of decisions for investors. Transition risks are aplenty. Which businesses will survive the fundamental change in the economy, regulatory landscape and consumer demand? Which business practices will have to be phased out and how will this affect corporate profitability or national competitiveness? Which companies or nations are most likely to lose their assets during the next climate change-induced natural disaster? But with every challenge comes opportunity. Which are the corporations and nations that will bring desperately needed solutions, or which are those that will survive thanks to a sustainable business model, while the competition drops?

Investors are not entirely at the mercy of these challenges and funds can be allocated in such a way as to reduce risks, enhance exposure to opportunity and be in line with the Paris Agreement targets. Since 2020, Zürcher Kantonalbank Asset Management has committed most actively managed portfolios to follow a Paris aligned trajectory toward net zero, while implementing a holistic sustainable integration methodology. ZKB's fundamental beliefs that is has a societal responsibility, that sustainability aspects are material across all asset classes and that sustainability drives performance has helped engineering a climate strategy that takes stock of the situation and looks to the future to ensure assets are looked after in a successful and sustainable approach.



Nearly 40% of investors say a lack of product innovation is curbing ESG adoption.

Capital Group's ESG Global Study 2022 reveals a need for multi-thematic ESG funds that can adapt to changing market conditions. Among the study's key findings, investors think there are not enough funds offering a broad spectrum of themes across the waterfront of ESG; they want more innovative products and recognize the need to invest in transitioners (companies that are looking to transition their business models to be more sustainable). Capital Group's ESG Global Study surveyed 1,130 institutional and wholesale investors, including pension funds, family offices and insurance companies, as well as funds of retail/private banks and financial advisors, located in 19 markets around the world in 2022. This is the second installment of the 2022 global study, which seeks to identify key drivers and challenges facing ESG investing.

Our study finds investors want to support a broad range of ESG themes through their investment actions. We can see a more sophisticated and holistic approach to ESG developing, as investors evolve away from negative screening and divestment.

lapag-Lloyd

Jessica Ground, Global Head of ESG, Capital Group



EŕG

A Race We Must Win — Climate Action Now.

Boris Herrmann, Skipper of Team Malizia with whom EFG has a long and successful partnership, took part in the 2022 edition of Building Bridges. The renowned sailor is a committed ocean conservationist, and together with his wife Birte Lorenzen-Herrmann, he has launched an international education program 'My **Ocean Challenge**' which aims to raise awareness among children about the importance of oceans and their role in combating climate change — an area of education that UNESCO refers to as 'ocean literacy'.

As part of its sustainability journey, EFG has launched a global volunteering program to actively support this important mission and to ultimately make a contribution toward the realization of the SDGs. The organization is offering all employees the opportunity to use one working day per year to visit schools in their community to educate the younger generation about ocean protection and to empower them to share their knowledge with those around them.

Image: Boris Herrmann on the Seaexplorer © Andreas Lindlahr

Julius Bär

The Sustainability Circle.

Launched in 2021, the Sustainability Circle is a community of like-minded Julius Bär clients motivated to support the shift toward a more equitable future and healthier planet for generations to come.

The objective of the Circle is to connect and empower members to create a positive impact on the environment and society. To that end, the community brings together investors, philanthropists, entrepreneurs and business leaders willing to join forces and leverage their experience to drive positive change.

Scan the QR code for more information.



KPMG

ESG risks in banks.

Climate risk, environmental risk, social risk: How can banks review the integration of ESG factors into their risk management?

Banks face challenges in disclosing and reporting to the relevant authorities. The applicable requirements have become increasingly precise, confronting banks with stricter reporting requirements on ESG risks. To support banks in this process with deeper insights, KPMG has developed a benchmark survey that is largely based on the ECB's March 2022 survey, and on additional topics. The survey focuses on the ECB's 13 supervisory expectations for climate and environmental risks in a bank's strategy and organization, overall risk management and framework, internal and external reporting, and risk type-specific expectations.

Explore how financial institutions can assess their position relative to their peers in KPMC's whitepaper "ESG Risk Management in Banks".



Don't put all your eggs in one sustainability metric.

Sustainability-related criteria are increasingly being used to make investment decisions and sustainability metrics are being more commonly applied to report to clients. Inevitably, because investment teams often don't have the skills or resources to analyze these aspects of a business, the source of much of the metrics used comes from third party ESG data providers. There have also been a raft of regulation and disclosure requirements for funds making any sustainable claims to prove them with data.

Attempts at measuring how sustainable a fund or company often fail when only one metric is used. This can be very misleading and result in perverse outcomes in which capital is allocated to areas of the market that are not sustainable. Liontrust advocates the use of a few metrics that better reflect the more nuanced nature of sustainability and help direct capital to more proactive areas.

Scan the QR code for more information.





R RepRisk

Spotting greenwashing with ESG data.

A major barrier to tackling greenwashing centres on the lack of standardization when it comes to ESG reporting, and what and how companies report on their sustainability claims. ESG ratings largely rely on selfreported data and promises made by companies. With data going back to 2007, RepRisk has recently identified that one of every five climate-related ESG risk incidents has been tied to greenwashing. The incident count has increased in recent years after the signing of the Paris Agreement in 2015, which brought public attention to the issue.

With greenwashing on the rise, an ESG approach that intentionally excludes company disclosures and instead captures the impact of a company can help investors spot risks in their portfolios that have reputational, compliance, and financial implications. Public sources and stakeholder insights can be used to identify and assess ESG risk incidents as they unfold and give investors the decision-useful information they need for sustainable capital allocation.



Understanding our impact.

Symbiotics has published its first Impact Report, an impact assessment by Tameo, a Swiss impact investing specialist serving the financial industry with independent expert solutions.

The report analyzes and presents the social and environmental impact of Symbiotics investments and explains how, by channeling over USD 2.5 billion, the organization supports more than 2 million people in 76 developing countries around the world, with a focus on financial inclusion for underserved households and small businesses, expanding access to clean energy, and much more.

Symbiotics has developed a threefold impact management approach along the following dimensions: sustainable finance, impact investing and inclusive finance

Scan the QR code for more information.



abrdn

ESG research innovation of the year.

Abrdn developed a climate scenario and analytics platform to help estimate the effect of different climate scenarios on investment returns. Three features jointly differentiate abrdn's climate scenario framework – bespoke scenario design, macro and micro integration, and probabilistic assessments.

The climate scenario toolkit has been shortlisted in the 'ESG research innovation of the year' category at the 2022 Principles for Responsible Investment Awards.

The PRI Awards recognize individually excellent projects conducted by signatories of all sizes, specialisms and levels of development.



New study shows Swiss real-estate funds have clear CO₂ reduction targets.

Most Swiss real-estate funds already have clear targets for reducing their CO₂ emissions and achieving the net zero objective by 2050, according to a study conducted by researchers at the Business and Economics Faculty of the University of Lausanne in collaboration with BCV. This annual study looks at ESG commitments by types of Swiss indirect real-estate investments and aims to provide a suitable standardized framework to integrate ESG criteria into listed Swiss real estate. Carried out for the first time in 2021, the study provides a benchmark for investors, including pension funds, and helps to increase transparency for this asset class.

In 2021, the study covered around 65% of the market, with the participation of major portfolio managers. It shows that 75% of respondents have targets to reduce their CO_2 emissions by 16% by 2025, 40% by 2030, and 96% by 2050. Although the real-estate portfolios examined are performing well in terms of energy consumption and CO_2 emissions, they are less strong in other areas – particularly waste production and water consumption.

Scan the QR code for more information.





Social bonds, a growing market needing coherent reporting indicators.

While climate related risks and opportunities are in focus, the social aspect appears less captivating to investors. Amundi's Impact Report argues that this is not the case. Social bonds represent a young yet promising market that has experienced substantial growth within the ESG bond universe, hitting a staggering +386% in 2020 and +62% in 2021.

Social bonds now represent around 20% of the total ESG bond market, versus 6% in 2017. This market cannot exist without the transparent reporting of projects financed through bonds and the International Capital Market Association which defines its rules. As described in their Social Bonds Principles guidelines, a key aspect for social bonds is the categorization of projects and their impact qualification and reporting. However, today a common methodology for impact assessment is lacking. Amundi encourages issuers to keep integrating transparency and consistency, while focusing on meaningful indicators that are well described and quantified.

Framework for Impact Measurement and Management.

AlphaMundi Group Ltd published its new Framework for Impact Measurement and Management ('FIMM') offering a comprehensive and dynamic methodology for impact assessment and disclosure. The FIMM was developed as a response to the growing demand for effectiveness and transparency in the management of the social and environmental impacts of the financial industry.

The FIMM draws on a number of industry best practice standards and aligns with the requirements of the recent Sustainable Finance Disclosure Regulation of the European Union.

The document provides a vision that structures AlphaMundi's impact and ensures alignment with mandatory regulations. The objectives outlined by the FIMM also translate the high-level goals of the SDGs into actionable mechanisms.

Scan the QR code for more information.







💓 INDOSUEZ

Shaping the relationship between banks and philanthropic organizations.

Indosuez Wealth Management has been exploring the relationship between banks and philanthropic organizations in the past years, a collaboration that can lead to innovation and drive real change.

Indosuez has created a solidarity committee in 2021 dedicated to allocating outperformance commissions to solidarity projects. In 2022, the institution launched a solidarity-based structured product: a socially responsible offering as part of its partnership with Plastic Odyssey, a key player which works on a massive scale to raise awareness on the protection of oceans and plastic waste. Through this collaboration, Plastic Odyssey benefits from donations generated by part of the commissions paid by investors, and supplemented by Indosuez and Crédit Agricole CIB.



Net-zero alliances are key for achieving the Paris climate goals.

Switzerland is pursuing the goal set out in the Paris Agreement of limiting global warming to a maximum of 1.5°C by 2050. It is now up to all sectors of the economy to contribute to decarbonization. Although the financial sector makes only a minor contribution to direct greenhouse gas emissions, financial institutions play a key role in funding the economy's climate transition.

PwC Switzerland, on behalf of the leading associations representing the Swiss financial center: The Asset Management Association Switzerland (AMAS), Swiss Bankers Association (SBA), Swiss Insurance Association (SIA) and Swiss Sustainable Finance (SSF), has carried out the first study into the current state of voluntary commitment.

The report shows that the Swiss financial center is already well positioned by international standards when it comes to achieving the goals and is also intended as the starting point for a longer journey. The proportion of financing solutions, assets and insurance premiums tied to net zero has grown over recent months, but further progress needs to be made and communicated transparently going forward.



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ROBECO

SDG Framework.

It's been five years since Robeco launched its SDG Framework. It now has universal coverage of more than 15,000 companies. The Framework uses a three-step method to quantify corporate contributions to the 17 goals. Robeco's analysts examine what a company does, how it does it, and whether it has been involved in any controversies. Once done, a scoring system is used ranging from -3 (highly negative contribution) through zero (neutral) to +3 (highly positive).

The SDG Framework provides a diverse range of SDG investment strategies crossing different asset classes – equity and fixed income – as well as investment styles of fundamental, quant and indices. From 2023 the Framework will be used as one way to define what is considered a sustainable investment at Robeco and determine whether a fund can be labeled as 'Article 9'.

Reflecting its commitment to transparency and furthering sustainable investing, Robeco is sharing the intellectual property of the Framework with stakeholders including clients and academics. This is the first step in the SI Open Access Initiative which began in August 2022. Using the SDCs as a scoring mechanism forms part of a wider belief that SI is moving on from being purely focused on ESG integration.



Building an ESG scoring system.

The Unigestion team is currently working on building an ESG scoring system that is in line with the Sustainability Accounting Standards Board (SASB). The institution is specifically utilizing SASB's materiality map, which is used to identify sustainability issues that are most likely to affect companies' financial condition or performance.

The SASB materiality map has four dimensions environment social capital, human capital, business model & innovation and leadership & governance. Each dimension then has a series of general issue categories. The map shows which issues are relevant to which sector and industry. This level of materiality is used to determine the weight of each issue to construct the ESG score.

Each of these general issue categories has one or more accounting metric to measure company performance. Unigestion is trying to follow the accounting metric as closely as possible to build the ESG score, using the same accounting metric wherever they can. Doing this enables the team to construct a more detailed ESG score, following the widely recognized reporting standards of SASB.





Vontobel

Legal & Compliance 4.0 vision and the ESG challenge.

Sustainable finance is an increasingly regulated field. The global regulatory waive in ESG and growing client/investor demands affect almost every ESG concept and there is practically no area of corporate activity left untouched by this development. From product structuring and disclosures to corporate reporting and climate risks, from marketing, website presence, data quality and consistent terminology to corporate strategy and purpose, in-house L&C departments are called to play a more active role in enabling firms to master the sustainability challenge and stay at the cutting-edge of fast-paced regulatory developments.

In this context and as part of its strategy, Vontobel is building up and developing specialized in-house regulatory ESG expertise to navigate the complex global regulatory environment. As part of its vision and ambition, throughout the year 2022, Vontobel's L&C department has continued to invest in ESG expertise by developing existing and hiring new talent, including by creating a centralized L&C team specializing in ESG. Acting as experts in industry bodies, the global investment firm also aims to contribute to the sustainable transformation of the Swiss financial center.



Community Engagement



THANK YOU!

A collective effort to advance sustainable finance

Building Bridges gathers a large community of changemakers that share the same vision of sustainability. All members of the community are actively contributing to the transition of our economic system. Each year, these members share their knowledge, experiences and perspectives at Building Bridges to support the Sustainable Development Goals.

The 2022 edition was conceptualized and implemented through a collaborative effort. The event was supported by 16 founding partners representing the finance community, International Geneva and Swiss authorities; 37 sponsors that supported the initiative; and over 140 organizations that planned cutting-edge content during the week.

Led by Sustainable Finance Geneva, the activities of the initiative were guided by a High-Level Group, Steering Committee, Operational Committee, and Communications Committee that collectively structured the 2022 edition.

PublicisLive and the Geneva Graduate Institute of International and Development Studies also played a key role in the development of the 2022 edition.

We would like to thank all the participants, speakers, moderators, organizers, sponsors, partners, volunteers, note-takers, photographers, and technicians who contributed to making Building Bridges 2022 a huge success.



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