BUILDING BRIDGES

SDG LAB

Recent Developments in Sustainable Finance

Building Bridges and SDG Lab 2022 Primer

Sustainable Finance: An overview of recent developments

The purpose of this document is to help provide some context and background on sustainable finance through the lens of the SDG Lab at UN Geneva. These messages and figures are intended to help spur greater understanding and dialogue within the sustainable finance space ahead of the 2022 edition of Building Bridges, 3 to 6 October 2022.

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This document was produced by the SDG Lab at UN Geneva for Building Bridges 2022.

Sustainable Finance: An overview of recent developments

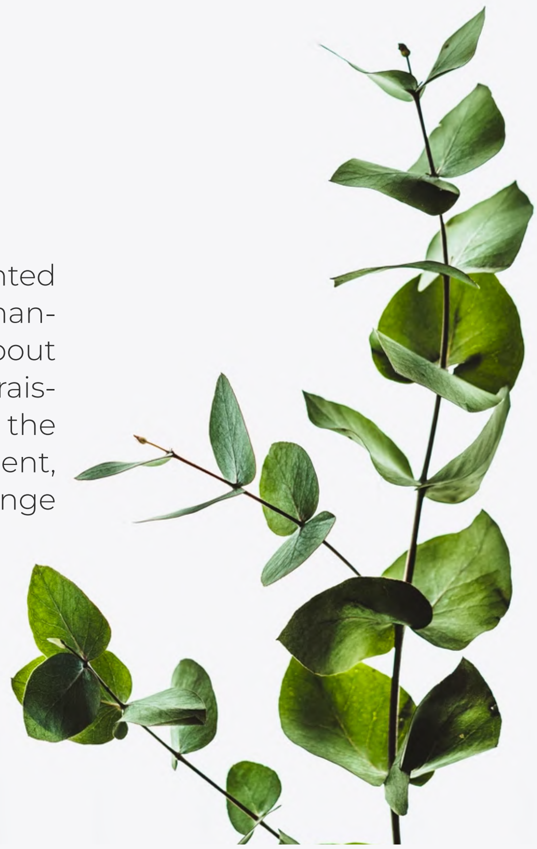
The urgency around climate change and other global challenges has led to a growing focus in recent years on how finance can support the shift to an inclusive, low-carbon economy. This has fueled a surge in the global demand for and supply of products such as green bonds and ESG-themed funds. Yet, while sustainable investing remains one of the fastest-growing areas of finance, the scale is still far below that needed to achieve the Sustainable Development Goals (SDGs).

At the same time, the ongoing impact of the coronavirus pandemic has wiped out years of progress on several key goals, widening the financing gap for the SDGs.[1] After an uneven rebound in international investment for the SDGs in 2021, the environment has changed dramatically in 2022. Higher inflation, the war in Ukraine and the slowing global economy are making it tougher for low-income countries to raise sufficient resources and borrow affordably for sustainable development.[2]

Addressing social issues

The rapid rise of sustainable investing presents unprecedented opportunities to help tackle global challenges. However, these financial products are not always so ambitious; many are mainly about identifying threats that could undermine financial performance, raising questions about their real impact. Awareness is growing of the need for more finance that goes beyond managing environment, social and governance (ESG) risks to bringing about positive change for people and the planet.

While environmental issues have dominated sustainable finance, social issues are increasingly in the spotlight. Multiple topics emerged during the pandemic, with social protection, labour rights and employee health and safety foremost among them. The growing focus on the SDGs is also driving demand for investment strategies around the "S" in ESG.



Sustainability Standards

Concerns about the sustainability credentials of financial instruments on offer continue to hamper the take-up of ESG investing. Recognizing the need for more transparency in the market, governments around the world are developing regulatory frameworks for sustainable finance.

Efforts to coordinate and consolidate standards at the international level have also gained momentum with the creation of the International Sustainability Standards Board.

Sustainable investing continues to be largely confined to developed markets. Low-income countries face significant barriers in accessing these financial flows partly because of their limited market size and the perception of relatively high risks in their capital markets. This is undermining the expansion of sustainable finance and holding back progress on the SDGs. It is also deepening the global wealth divide, adding to the challenge of achieving the 2030 Agenda in the remaining eight years.

Key Initiatives

The pandemic has rolled back progress on the Sustainable Development Goals, with repercussions of the conflict in Ukraine dealing another significant blow. Meanwhile, the climate crisis is intensifying, with change happening faster than scientists had predicted. **This demands a renewed commitment to mobilizing financing and investment on behalf of the SDGs.**

Unlocking capital for developing economies is crucial to achieving the SDGs. Greater awareness of investment opportunities in low-income countries could help them attract more financing for sustainable development.

- SDG Lab's Pipeline Builder Project offers an example of how to streamline and boost capital to projects aligned with national sustainable development strategies. Through the Pipeline Builder, the Lab supports broader UN initiatives on sustainable finance, such as the UN Development Programme's work in helping countries transform their SDG priorities and development plans into investor roadmaps that point to impactful investment areas.

Sustainable investment strategies are attracting more money than ever, but they still represent only a sliver of global financial assets. To drive the socio-economic transformation set out in the 2030 Agenda, all forms of finance should be aligned with the SDGs and climate targets and sustainability fully integrated in business models and culture.

- Sustainable finance goes beyond investing in businesses that produce goods and services in a responsible way. **More financing is needed for companies and projects that contribute explicitly and directly to the SDGs.**

- UN SDG Impact offers private equity funds and bond issuers guidance on how to contribute to the goals. Investors and financial institutions can find information on how to improve the impact of their portfolios and as stakeholders in financial assets on the Impact Management Platform.

Social Lens

The pandemic has turned a spotlight on the social side of sustainability. As the world recovers, financial support for economic activities that address social challenges must remain a priority and be accompanied by high-quality data and tools to measure impact.

- "It Takes a Global Crisis," a podcast series produced by SDG Lab together with the UN Library and Archives Geneva, offers insight on how the pandemic brought to the fore urgent social, health and economic needs and how to address them.
- During **Building Bridges 2021**, the Lab convened two data workshops that explored the impact of measuring social outputs. An outcome document distilled four key recommendations on structuring and using data for sustainable investments.

Sustainability

The regulatory landscape for sustainable finance is rapidly evolving, as governments step up efforts to bring more transparency to the market. **International collaboration is important to ensure coherence with global standards and accelerate the integration of ESG into market infrastructure.**

- The new International Sustainability Standards Board (ISSB) has published a first set of global guidelines on corporate sustainability disclosures and proposed rules requiring publicly traded companies worldwide to disclose climate-related risks. It aims to issue final requirements by the end of 2022, depending on feedback. The UN has suggested additional steps to strengthen the impact of the standards. The ISSB's future agenda and priorities will be determined on the basis of further public consultations, expected in Q3.

Collaboration between the finance industry and the sustainable development community is key to enabling conditions for sustainable finance.

- A **lack of dialogue** between providers of finance and partners at country level, including Member States, has contributed to a mismatch in supply and demand in sustainable finance. The SDG Lab is committed to bringing Member States to the dialogue between finance and development communities, including to the 2022 Building Bridges event, for a better understanding of national priorities and to showcase progress in creating enabling environments for investment.
- As a **founding partner** of Building Bridges, UN Geneva through the SDG Lab, has played an instrumental role in bringing together Geneva's finance and sustainable development communities to work towards driving more capital to the SDGs at country level.

Facts and Figures

Sustainable finance refers to the integration of environmental, social and governance (ESG) criteria into financial services. Going beyond the traditional focus on profits and losses, this approach channels investment into activities and projects that support the shift to an inclusive, low-carbon economy. In this way, it has a critical role to play in delivering on the SDGs. ESG funds and green bonds dominate sustainable finance, but the strategy is spreading in other markets. For example, Chile this year became the first nation to offer bonds tied to sustainability targets.

- **Achieving the SDGs** requires an estimated investment of US$ 5 trillion to US$ 7 trillion per year until 2030. At that scale, the investment challenge is beyond the capacity of the public sector alone. Before COVID-19, which rolled back progress on the SDGs, there was an annual US$ 2.5 trillion funding gap for sustainable development in developing countries. The UN now estimates the yearly gap in SDG financing at US$ 4.3 trillion.[3]

- **International investment** in sectors relevant for the SDGs in developing countries increased substantially in 2021, by 70 percent. Most of the growth went to renewable energy. Investment activity in other SDG-related sectors – including infrastructure, food security, health, and sanitation – saw only a partial recovery.[4]

- **The coronavirus crisis** raised the risks of countries falling into debt distress, and the war in Ukraine will likely exacerbate their economic weaknesses. At the beginning of 2022, three in five of the poorest countries were at high risk of or already in debt distress.[5]

- **The UN Conference on Trade and Development (UNCTAD)** estimates that the value of sustainability-focused investments amounted to US$ 5.2 trillion in 2021, up 63 percent from 2020. These products include sustainable funds (US$ 2.7 trillion), green bonds (over US$ 1.5 trillion outstanding), social bonds (US$ 418 billion), mixed-sustainability bonds that combine green and social projects (US$ 408 billion) and sustainability-linked bonds (US$ 105 billion). Most of these assets are concentrated in developed countries.[6]

- **Assets** that integrate some sustainability measurement surpassed US$ 35 trillion in 2020, up from US$ 30.6 million in 2018 and US$ 22.8 trillion in 2016, to become a third of the total global assets under management, according to the Global Sustainable Investment Alliance.[7]

*Footnotes

(1) UN Sustainable Development Goals Report 2022, "A road map out of crisis," page 3
(2) Financing for Sustainable Development Report 2022, "Outlook and Risks for the Global Economy", pages 3-4
(3) UNCTAD, World Investment Report, Foreword, page v
(4) UNCTAD, World Investment Report, Capital Markets and Sustainability, page xii
(5) International Monetary Fund/World Bank, "Making Debt Work For Development and Macroeconomic Stability," pages 3-4.
(6) UNCTAD, World Investment Report, Capital Markets and Sustainable Finance, page 162
(7) Global Sustainable Investment Alliance, Global Sustainable Investment Review, p. 5

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