27 November 2014

Environmental Audit Committee Inquiry
Sustainable Development Goals ("SDGs")

Written Evidence from the UK Sustainable Investment and Finance Association (UKSIF)

Introduction

1. The UK Sustainable Investment and Finance Association (UKSIF) supports the UK finance sector as a global leader in advancing sustainable development through financial services. We promote and support responsible investment and other forms of finance that advance sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments.

2. UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 240+ members and affiliates include pension funds, institutional and retail fund managers, banks, financial advisers, research providers, consultants and non-governmental organisations.[1]

3. In the context of the SDGs UKSIF is aligning its efforts with an informal international coalition of organisations. We believe that the global sustainable finance sector will seek to influence the outcomes of the SDG process on a collaborative basis; whilst this submission focuses on the UK there is intense interest from finance around the world and UK policymakers should bear this in mind- we do not want the UK to be a laggard.

The Government's aims and ambitions for the Goals, particularly relating to sustainable development

4. We believe the role of the finance sector in supporting the Sustainable Development Goals has been significantly underestimated, as have the economic benefits that stem from the effective leverage of capital markets. It is important for Government to recognise that not only *can* investors help in the success of the SDGs, but they are ready and willing[2]. Before this can happen, however, a number of changes to the current operating environments must take place.

5. The need for regulatory certainty is clear, and this can be achieved through integrated financial regulation. This means ensuring issues linked to sustainability are properly represented in national and international financial regulation. There are at least two aspects to this. The first is to make sure that financial risks stemming from sustainability issues are recognised at a high-level by regulators. In January the President of the World Bank commented on the necessity of 'enforcing disclosure of climate risk and requiring companies and financial institutions to assess their exposure to climate-

[1] For more information about UKSIF and its members, please visit www.uksif.org.
[2] UKSIF member feedback.

related impacts.'[3] Sustainable development, environmental concerns, the financial performance of individual assets and wider economic growth are already interconnected and the linkages will only become closer as time passes. However, if we are to see effective consideration of these issues become part of the day-to-day business of institutions across the finance sector, then the second aspect is crucial, making sure that detailed day-to-day "working" regulation is effective. One practical example can be given. The Solvency II directive is described on the FSA website as "a fundamental review of the capital adequacy of the European insurance industry". Heavily influenced by the financial crisis, the directive demands that the level of capital held by insurers reflect the nature of the assets they are invested in. A consequence of this is that assets with long lives and which are illiquid are "charged" at a higher rate than assets which have shorter lives and which are liquid. Whilst this may help capital adequacy it inevitably disadvantages certain types of investment which are likely to be of key importance in funding more sustainable economies. For instance, private equity investment in new technologies or very long-dated debt issues to fund infrastructure development are at a disadvantage, but because of the nature of the projects involved short-dated, liquid financing is completely inappropriate. Thus measures to address one problem exacerbate another, the funding of sustainable economic development.

6. An important and very welcome UK development in the regulatory area is the recent report from the Law Commission on Fiduciary Duties[4] which makes it clear that pension fund trustees not only can but *should* consider material non-financial factors such as sustainability in their investment policies. This can have a significant impact on redirecting capital towards low carbon and energy efficient investment. The report was widely welcomed across Government, including by the Pensions Minister, Steve Webb, and the Secretary of State for Business, Innovation and Skills, Vince Cable. The Government has now asked The Pensions Regulator and the Financial Conduct Authority to reflect this guidance in their work and we would urge the EAC to ask them to attend an evidence session to update the committee on current progress.

7. **Getting appropriate regulatory treatment for sustainable development, from the highest level to the lowest level, is key if the enormous private sector financial resources potentially available to fund sustainable development are to be deployed.**

8. We were pleased to see in the OWG proposals goal 12.6, to 'encourage companies, especially large and transnational companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle'. This is certainly a step in the right direction, but more is required i.e. increased transparency across the whole investment chain. This means integrated reporting of ESG issues by asset owners, asset managers, investment consultants and proxy voting agencies. The regulators must require these market participants to annually publish integrated sustainability reports. As already mentioned, government reforms to national regulators may be necessary to establish sustainability as a core part of their terms of reference.

---

[3] Jim Yong Kim, Davos Press Conference, http://www.worldbank.org/en/news/speech/2014/01/23/world-bank-group-president-jim-yong-kim-remarks-at-davos-press-conference
[4] Law Commission report on the *Fiduciary Duty of Investment Intermediaries*, http://lawcommission.justice.gov.uk/docs/lc350_fiduciary_duties.pdf

Co-ordination between government departments in agreeing the Goals, and the potential impact on implementation of policies and programmes

9. From 2001, the Sustainable Development Indicators were maintained by the Department for the Environment, Food and Rural Affairs (DEFRA). Over the past year, however, the UK has developed new, more streamlined SDIs which are within the remit of the Office for National Statistics (ONS) and which brings the UK into line with other international institutions. While the Secretary of State for International Development acknowledges work with DEFRA on current international processes[5], the Open Working Group's (OWG) report has several proposals which fit more naturally into the mandates of other departments such as DECC, BIS and HMT.

10. In agreeing the Goals and establishing an international framework in which they can operate and be monitored, it is crucial for effective cross-Whitehall input. ***Responsibility for negotiating the SDGs lying solely with DFID ignores both the sustainable development aspect as well as the financing required for the Goals' successful implementation***. The appointment of a cross-departmental minister, perhaps called the Sustainability Secretary to the Treasury, and a cross-departmental team which is easily accessible to the public, by civil society groups and by the international community is crucial – engagement is something the Government has already accepted is key in securing an ambitious 2015 framework[6].

11. Just like the role of the finance sector in general, we believe that the potential role of the Treasury in the successful negotiations and implementation of the SDGs and post-2015 framework is absolutely vital and has been significantly underestimated. Far more will be achieved with the support of HMT, and a Sustainability Secretary to the Treasury could represent the focal point of the UK's international efforts. We believe the integration of sustainability factors into the terms of reference of UK financial regulators would have a massive and extremely positive impact in redirecting capital towards sustainable investment. This simply will not happen with DFID having responsibility for the SDGs; the Treasury must be involved if we are to see real progress.

How the Goals will influence DFID's aid programmes, and how the UK's other international policies and programmes will help the Goals to be delivered.

12. The UK is involved in other international processes that are intrinsically linked to the development of the SDGs:

13. The first of these is through the UN Framework Convention on Climate Change ("UNFCC"). The Government has already recognised the importance of the process, and COP 20 in Lima in December is where the 195 signatories to the UNFCCC will meet to negotiate how national climate change

[5] Letter to the EAC http://www.parliament.uk/documents/commons-committees/environmental-audit/Letter-from-DfID-Secretary-of-State.pdf

[6] Government response to the International Development Committee report on Post 2015 Development Goals: http://www.publications.parliament.uk/pa/cm201213/cmselect/cmintdev/1065/1065.pdf

mitigation commitments can be brought forward to meet the agreed limit of a 2°C average increase in global temperature. The UK should use its influence to make sure that the framework provides for ambitious and fair national commitments, tracks progress, has a mechanism to increase commitments where they are not ambitious enough, and supports other countries in meeting their commitments, particularly the world's poorest nations.

14. Commitments made through the framework must be legally binding in international law and as such transparency and accountability must be central tenets. In tracking progress it is essential that countries are consistent in their approaches. This means using the same metrics to allow easily comparable data which includes:

    - Common timeframes;
    - Actual emission reduction data;
    - The sectors and gases that are included;
    - Transparency in how calculations are performed;
    - Independently verified and publicly available reporting.

    On the *Guardian* website today the Environment Secretary makes the point that "Britain is arguing hard for a proper analysis of all these emission reduction pledges, so we can see how far short the world is of where the science is telling us we needed to be." The Committee should do what it can to support those efforts.[7]

15. The UK Government is currently engaged in bi-lateral negotiations[8] with a range of countries to encourage them to bring forward their commitments well ahead of COP 21 in Paris in late 2015. It is therefore important that it does all it can to encourage the most ambitious targets possible as well as offer support to those countries as they look to meet those targets post-2015.

16. The second is the United Nations Department of Economic and Social Affairs (UNDESA) conference in Addis Ababa in July 2015 on financing. UN Secretary General, Ban Ki-moon, has recently emphasised the importance of financing in the post-2015 processes[9] and the conference will focus on the effective use of resources for sustainable development including domestic and international public, private and blended finance. We welcomed the High Level Panel report on the post-2015 agenda and in particular its acknowledgement that 'the most important source of long-term finance will be private capital, coming from major pension funds, mutual funds, sovereign wealth funds,

[7] http://www.theguardian.com/environment/2014/nov/20/britain-should-be-proud-of-its-pledge-to-the-green-climate-fund
[8] Government report: *Paris 2015 – Securing our prosperity through a global climate change agreement,* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360596/hmg_paris_2015.pdf
[9] http://www.un.org/en/development/desa/news/financing/with-the-goal-to-finance-a-sustainable-future.html

private corporations, development banks, and other investors'.[10]

17. The current approach to funding development was agreed in Monterrey, Mexico in 2002, where it was established that 'each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasised. At the same time, domestic economies are now interwoven with the global economic system'.[11] While the original doctrine continues to be useful, this next meeting represents an important opportunity to update the Monterrey framework to better meet the challenges of the post-2015 development agenda[12].

18. The result of the Addis Ababa conference will be an inter-governmentally negotiated and agreed outcome, which should constitute an important contribution to and support the implementation of the post-2015 development agenda[13] and so it is extremely important that the UK pushes for a robust, effective and workable framework. It is equally important that the UK has representatives attending the event from the Treasury, who will be better placed than DfID or DEFRA officials to develop the new framework.

19. The UNFCCC and the UNDESA processes are interconnected and will impact on the overall success of the SDGs. The UK Government must look to develop an approach which encompasses all three processes if it is to be successful; this will be more easily achieved through joined up thinking in a cross-Whitehall department with a cross-departmental minister, preferably in the Treasury (see section 2).

The accountability and reporting arrangements for the UK setting targets and indicators for the Goals, and how performance will be reported.

20. Despite the ONS taking on more streamlined SDIs in the past 12 months, it is likely that new indicators will be necessary. It is essential that each department then track its progress, but in order to avoid them "marking their own homework" they should feedback to the central, cross-Whitehall department that we propose has oversight for the post-2015 processes (see section 2). This progress should then be made publicly available.

21. As well as transparency in the UK framework, it is important that there is a mechanism for accountability. Independent monitoring and verification will be crucial in holding the Government to account. Accountability will also be better achieved with a cross-departmental minister, preferably in the Treasury, who will have oversight of the SDG process, as well as the processes for the UNFCCC

[10] High Level Panel Report on the Post-2015 Agenda, p12 at http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf
[11] United Nations, Monterrey Consensus on the International Conference on Financing for Development, in Monterrey, Mexico. United Nations, 2002
[12] Report of the Intergovernmental Committee of Experts on Sustainable Development Financing http://www.un.org/ga/search/view_doc.asp?symbol=A/69/315&Lang=E
[13] UN Financing for Development, http://www.un.org/esa/ffd/third-conference-ffd/index.htm

UK Sustainable Investment and Finance Association

and UNDESA.

22. We feel the Environment Audit Committee's recent recommendation for the establishment of an 'office for environmental responsibility'[14] is a step in the right direction and the EAC's suggested responsibilities for the body are positive. However, any independent office must have as its medium to long-term aim holding the Government to account with regard to the three international processes already discussed (see section 3). As we have argued, environmental responsibility cannot be decoupled from sustainable development; the two are very closely linked. This is why we believe that any independent body must have social and environmental responsibilities within its remit to hold the proposed cross-Whitehall team and minister to account, as well as the Government's progress on the SDG, the UNFCCC and the UNDESA processes.

Recommendations

- Reform of national and international financial regulators to explicitly incorporate sustainability and the consideration of Environmental, Social and Governance issues as part of their mandates.
- Increased transparency from all market participants including an annually published sustainability report.
- The appointment of a cross-Whitehall departmental team to lead on the post-2015 processes including *a cross-Departmental minister; the appointment of a Sustainability Secretary to the Treasury will naturally bring HMT in line with international processes*.
- Appreciate that the other international processes in which the UK is engaged are intrinsically linked to the success of the SDGs, and:
    - Use the bi-lateral negotiations the UK is currently entered into re the UNFCCC to push for ambitious targets to meet the internationally agreed 2°C limit.
    - Ensure a legally binding framework, push for consistent metrics between nations and call for a commitment that progress will be monitored, publicly available and independently verified; and a mechanism to review commitments where they are not ambitious enough.
    - As part of the UNDESA process, ensure a robust, effective and workable update to the Monterrey framework that addresses the challenges of the post-2015 processes.
- Establish a new independent body which has responsibility for holding the Government to account over the SDG, UNFCCC and UNDESA processes as well as monitoring and verifying its progress.

[14] EAC Report, *An Environmental Scorecard*, p54 at http://www.publications.parliament.uk/pa/cm201415/cmselect/cmenvaud/215/215.pdf

UK Sustainable Investment and Finance Association

Conclusion

The UK Government must begin to realise that sustainable development and environmental issues cannot be considered separately. It must also realise the potential impact reform of financial markets can have in achieving its goals and set out an ambitious plan with regulators to do this. It should centralise its work on the three international processes taking place in one cross-Whitehall team with involvement from the Treasury, perhaps even with a new Sustainability Secretary to the Treasury as its head. Transparency and accountability are essential and the Government should set up a new body to hold the cross-Whitehall team and minister to account on these processes.

Yours sincerely,

Simon Howard

Chief executive
UKSIF
0207 749 9954
Simon.Howard@uksif.org