Reflections on Sustainable Finance

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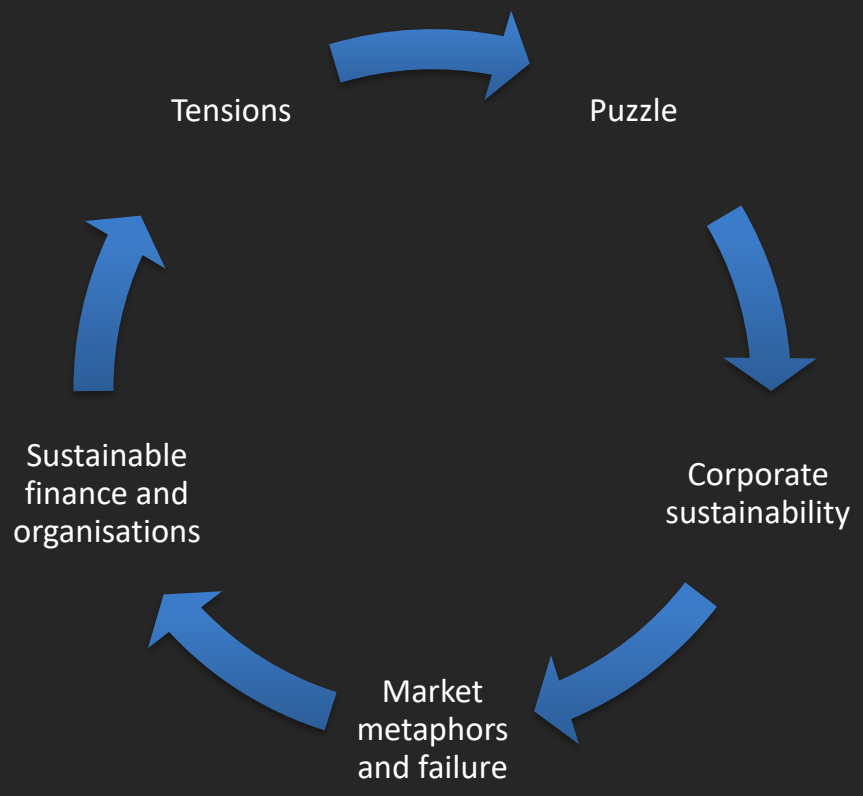
Outline


Tensions
Puzzle
Corporate sustainability
Market metaphors and failure
Sustainable finance and organisations

Is it **sustainable finance** or **financing sustainability**?

Possible Implications

Sustainable finance	Organisation/operations Products/services
Financing sustainability	Products/services

Example

Nigerian Sustainable Banking Principles

BANKERS' COMMITTEE

JOINT STATEMENT OF COMMITMENT BY MEMBERS OF THE BANKERS COMMITTEE

"THE NIGERIAN SUSTAINABLE BANKING PRINCIPLES"

As leaders in the Nigerian financial sector, we are uniquely positioned to further economic growth and development in Nigeria through our regulatory, lending and investment activities across a diversity of segments and sectors of the Nigerian economy. The context in which we make business decisions is, however, characterized by complex and growing challenges relating to population growth, urban migration, poverty, destruction of biodiversity and ecosystems, pressure on food sources, prices and security, lack of energy and infrastructure and potential climate change legislation from our trade partners, amongst others.

Principles

Principle 1 - Our Business Activities: Environmental and Social Risk Management

We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negative impacts.

Principle 2 - Our Business Operations: Environmental and Social Footprint

We will avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.

Principle 3 - Human Rights

We will respect human rights in our Business Operations and Business Activities.

Principle 4 - Women's Economic Empowerment

We will promote women's economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.

Principle 5 - Financial Inclusion

We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.

Rationale

The **business activities of the clients** that we fund can have potentially negative impacts:

air or water pollution

destruction of biodiversity

threats to human health and safety

violations of labour rights

displacement of livelihoods

Our **Business Operations** (undertakings of employees and the physical human capital, assets and infrastructure) may potentially have negative impacts on the environment or local community in which it operates

Negative **impacts** on the environment and society

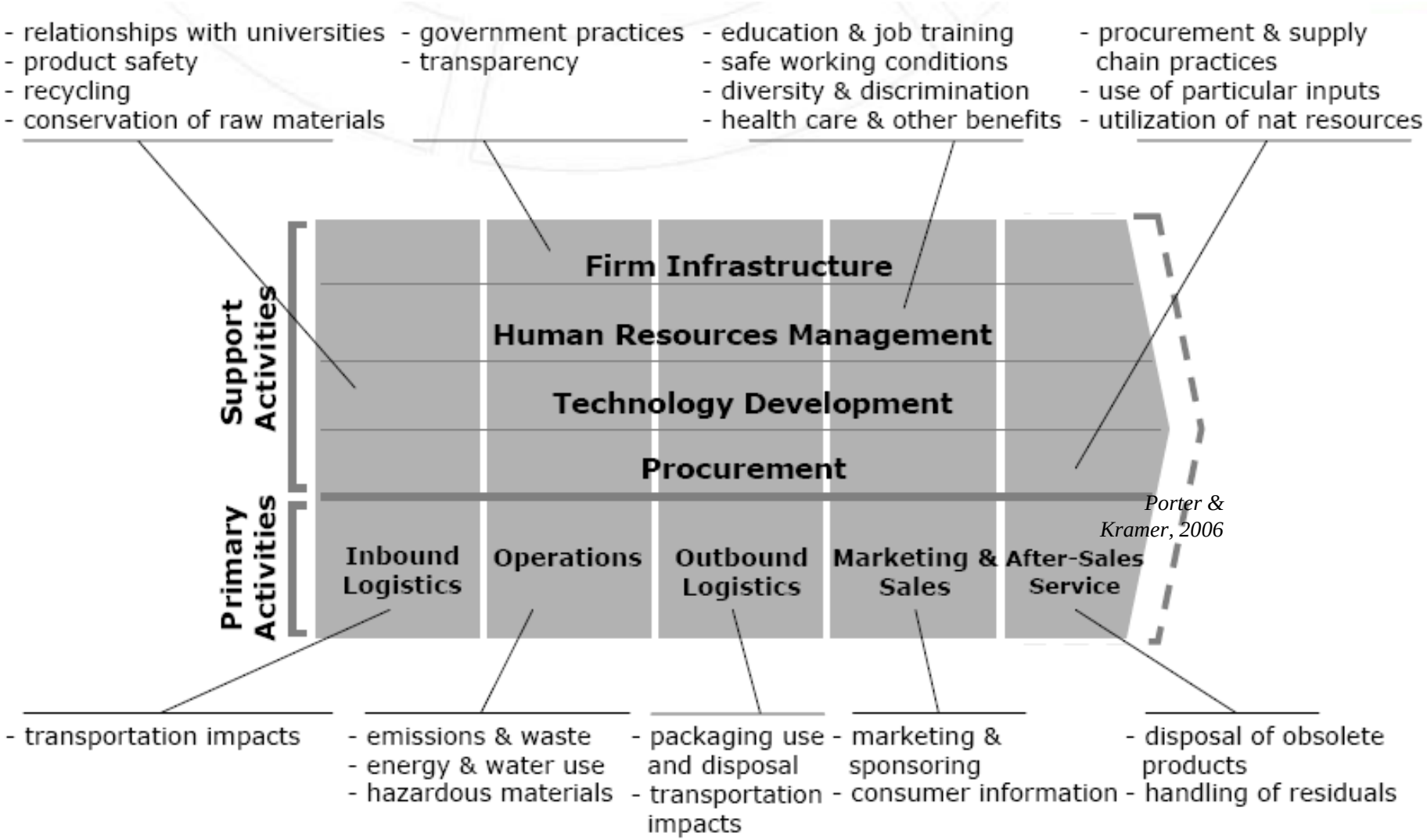
Risk (credit risk, reputational risk, and legal risk)

Corporate sustainability as impact management

….impact matrix

Market Place	Work Place
Community	**Environment**

…value chain impacts



Porter & Kramer, 2006

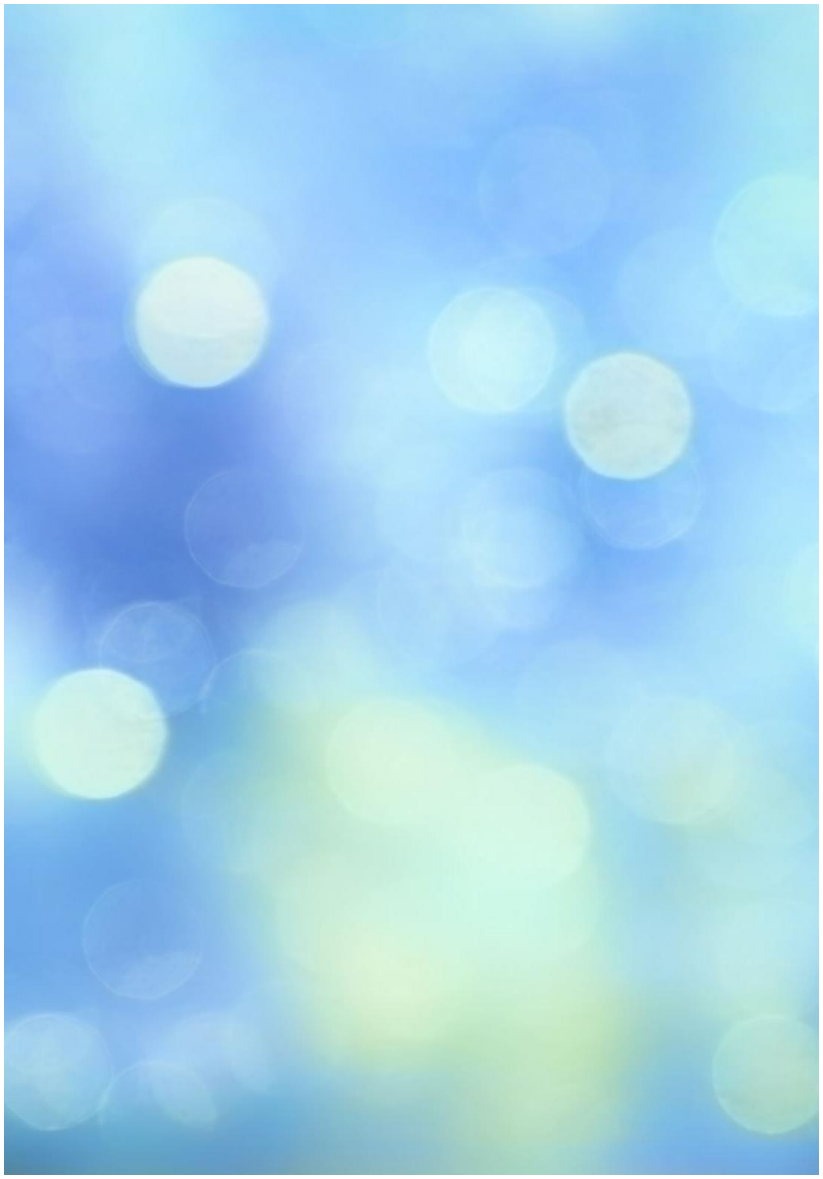
Sustainable finance and financing sustainability are implicated in **markets**

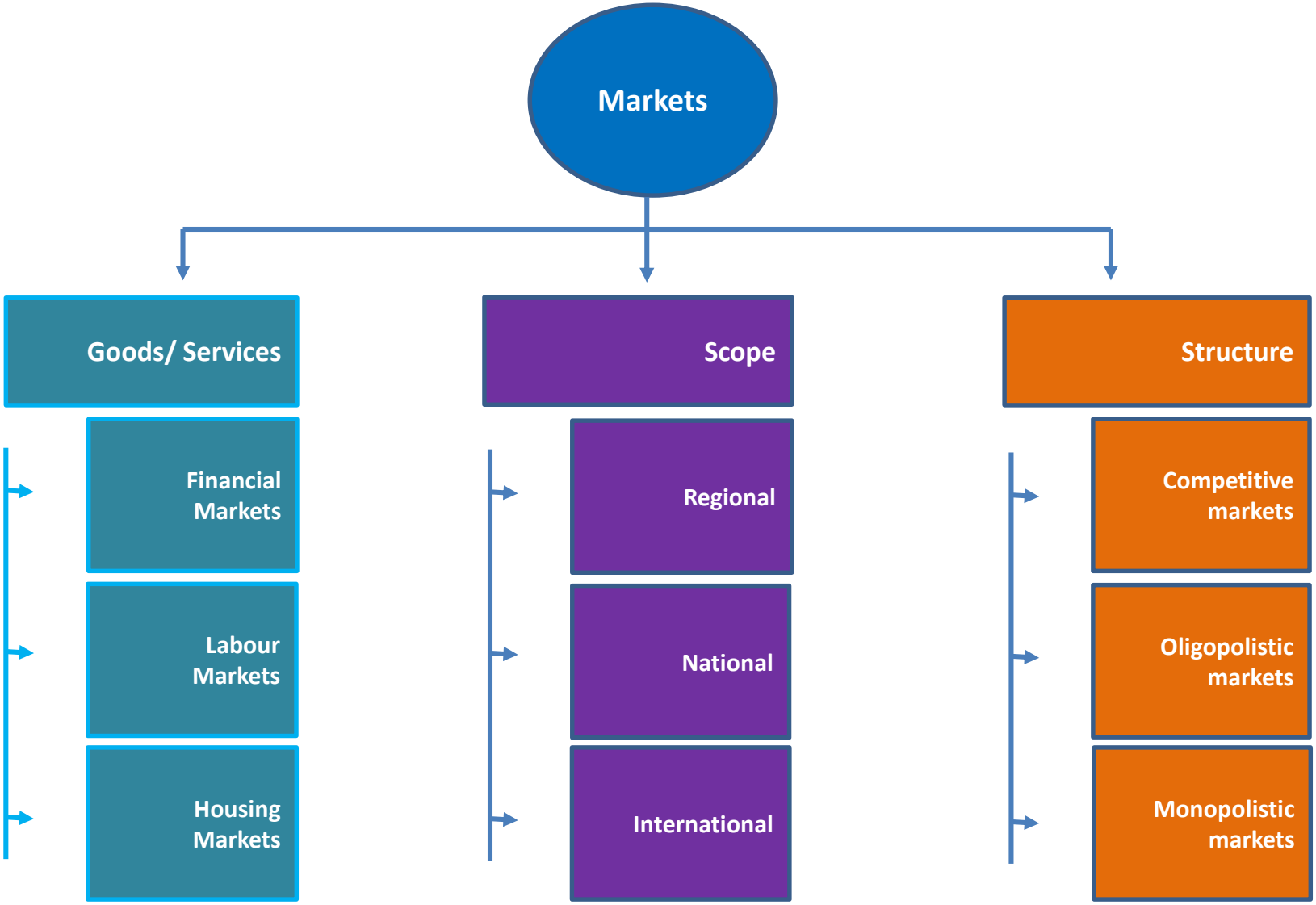
What are markets?

Market(s)

"A means by which the exchange of goods and services takes place as a result of buyers and sellers being in contact with one another, either **directly** or through **mediating agents** or **institutions**" (Robinson, 2017; emphasis mine)

"Institutions in which individuals or collective agents exchange goods and services" (Herzog, 2017)




Markets
Goods/ Services
Financial Markets
Labour Markets
Housing Markets
Scope
Regional
National
International
Structure
Competitive markets
Oligopolistic markets
Monopolistic markets

Markets as Metaphors

Markets as places/processes

Market – any place or process that brings together buyers and sellers with a view to agreeing a price

Markets as social spaces

Markets are arenas of **social interaction**. They provide a **social** structure and institutional order for the voluntary exchange of rights in goods and services, which allow actors to evaluate, purchase, and sell these rights (Aspers and Beckert 2008)

Markets as animal spirits

In this case, markets are seen to be capable of exhibiting animal behaviours. E.g., **Bullish vs Bearish**

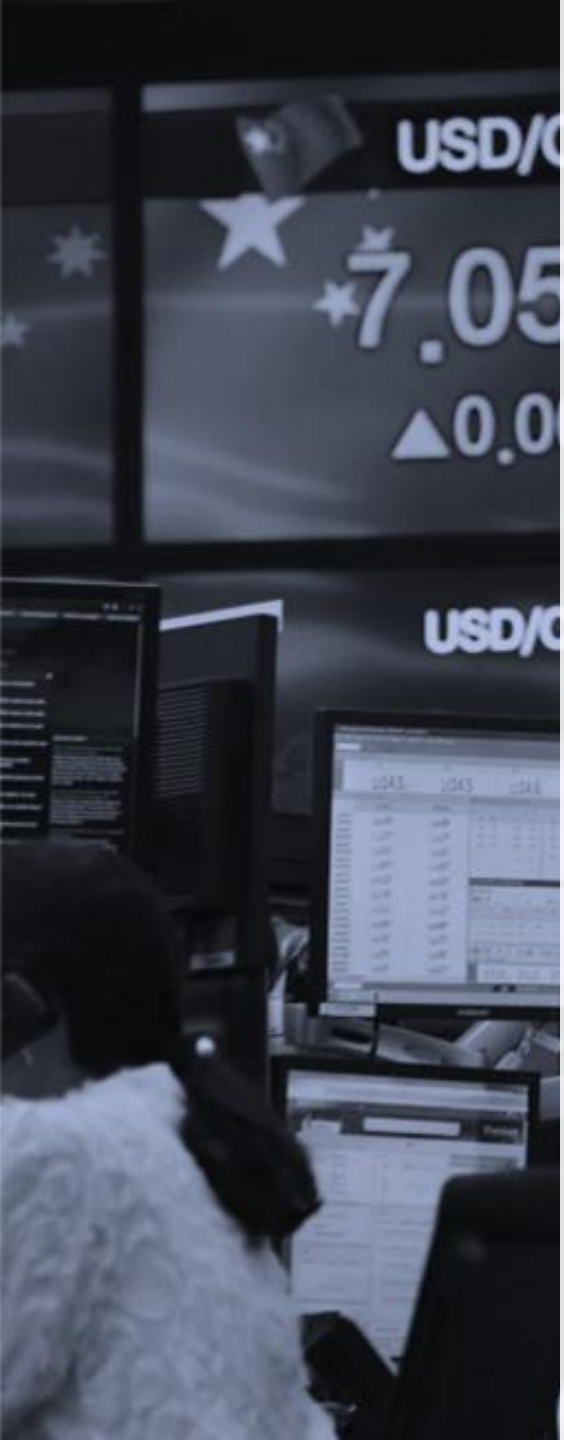
Markets as exchange mechanisms

The basis of how an economy operates – through production and subsequent **exchange**

Markets as allocation mechanisms

In a market, resources are **allocated** based on the **demand/supply** in which prices plays a **signaling function as it allocates resources** to the production of different types of goods.

https://qeducation.sg/economics-resources/role-of-the-price-mechanism-in-allocating-resources-in-an-economy/ accessed on Jan 26, 2020

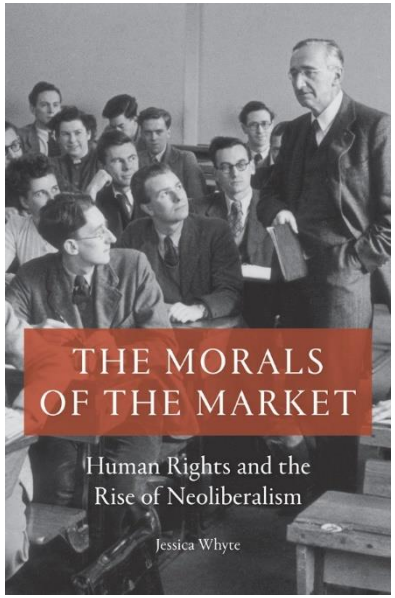


Markets as calculative devices

These three elements – calculable goods, **calculative** agencies and calculated exchange – define concrete **markets** as organized collective **devices** that calculate compromises on the values of goods. (Callon and Muniesa, 2003)

Markets as politics

“I use the metaphor "**markets as politics**" to create a sociological view of action in markets…. At the formation of **markets**, when actors in firms are trying to create a status hierarchy that enforces non-competitive forms of competition, **political** action resembles social movements. In stable **markets**, incumbent firms defend their positions against challengers and invaders”. (Fligstein, 1996)



Markets as moral projects

This line of research sees **markets** as cultural phenomena and **moral projects** in their own right, and seeks to study the mechanisms and techniques by which such **projects** are realized in practice. (Fourcade and Healy, 2007)

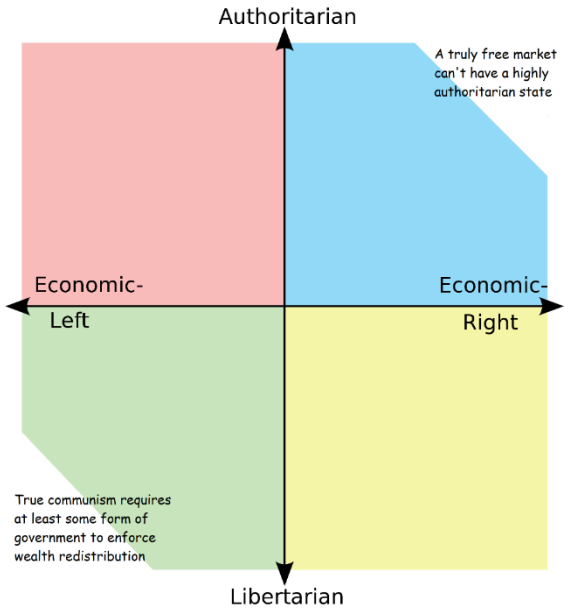
Markets as freedom

Just as the market depends on freedom, so freedom depends on the market. Certainly, private property, which is fundamental to all market economies, protects individual freedom. If the state owns all the auditoriums and printing presses, how much freedom do you have to speak out against government policy?

https://fee.org/articles/markets-and-freedom/ accessed on Jan 26, 2020

Markets as ideologies

Free **market ideology** asserts that **markets** are always good and government regulation - or even government in general - is always bad. ... Only a small minority of people are true ideologues, but a fuzzier version of free **market ideology** is accepted broadly enough that our political discourse has been taken over. (Huffpost, 2017)



Market metaphors can lead investors astray

Excitable coverage of financial market movements not a recent development

Tue, Sep 20, 2016, 06:30

Proinsias O'Mahony

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4 mins

Markets fail!

Causes of market failure

- externalities,
- information asymmetry,
- lack of competition,
- missing markets (or presence of public goods),
- high inflation and unemployment.

Well-functioning market

- A well-functioning market is one that cumulatively minimises negative impacts on, and enhances, social welfare and the natural environment.
- A competitive market, for instance, arguably maximizes total social welfare.

What is the link between sustainable finance (financing sustainability) and well-functioning markets?

Arguably, **unsustainability** is a manifestation of **market failure**

Sustainable finance

European Commission

Sustainable finance refers to the process of taking **environmental, social and governance (ESG) considerations** into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. **Environmental considerations** might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. **Social considerations** could refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The **governance** of public and private institutions – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. Sustainable finance also encompasses transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

European Commission

EN English

Search

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Platform on Sustainable Finance

The Platform is an advisory body subject to the Commission's horizontal rules for expert groups.

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Markets as cultures and institutions

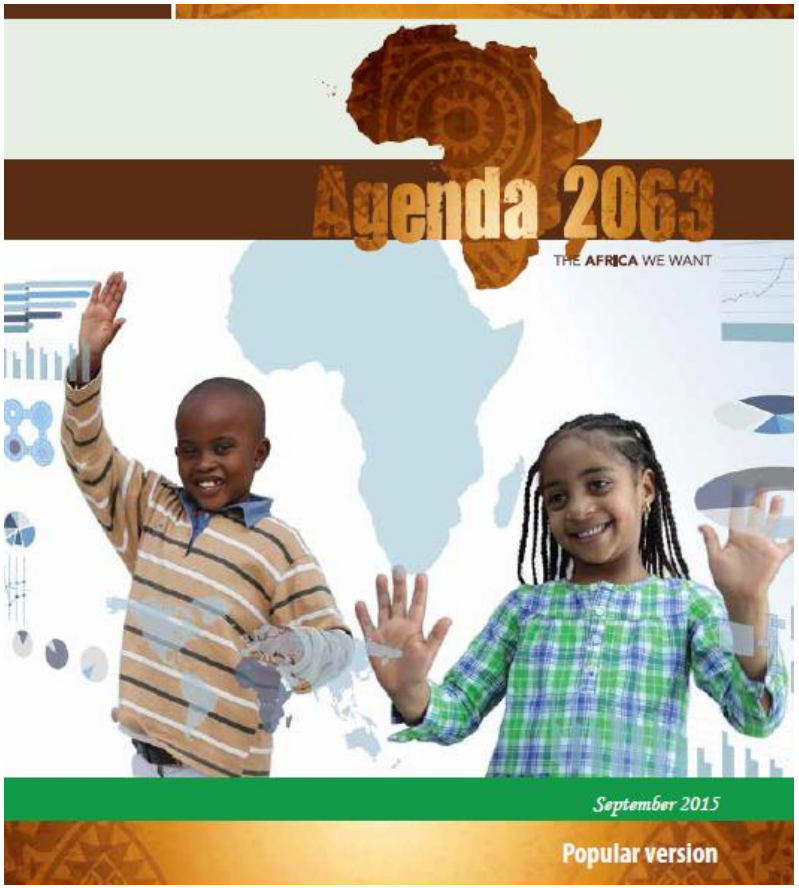
Markets are underpinned by cultures and institutions

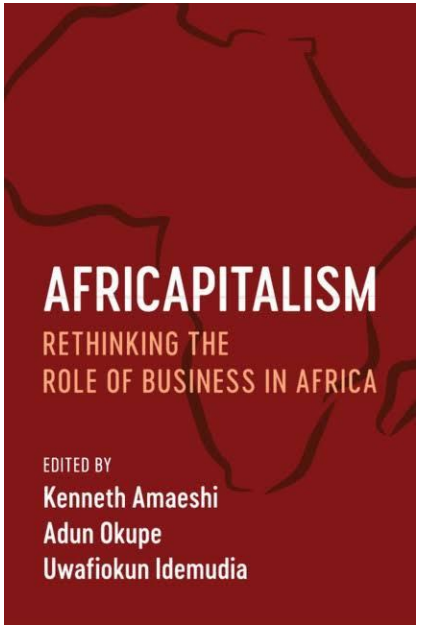
ESG Principles	East Africa	North Africa	South Africa	West Africa	
UN Sustainable Development Goals (SDG) Framework	1	1	1	1	**4**
UN Global Compact Principles	1	1	1	1	**4**
Intergovernmental Panel on Climate Change (IPCC) Guidelines	0	0	0	0	**0**
UN Framework Convention on Climate Change (UNFCCC)	1	0	0	0	**1**
Global Reporting Initiative (GRI) Framework	1	1	1	1	**4**
UNEP FI Principles for responsible banking	1	1	1	1	**4**
IFC Performance Standards	1	0	1	1	**3**
Nigerian Sustainable Banking Principles	0	0	1	1	**2**
ISO Sustainability Standards	0	1	0	1	**2**
The Equator principle (E.P.)	1	0	1	1	**3**
Comment:	**7**	**5**	**7**	**8**	

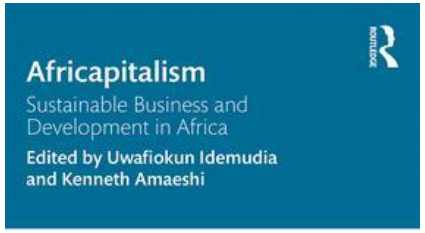
Connecting to Africa

Where do our ESG/Sustainability frameworks come from?

Connecting to Africa







implications for organisations

Sustainable finance as (org) culture

Tensions

Tension #1

Environmental vs Social Sustainability

Tension #2

Profit vs Purpose

Tension #3

Top vs Middle Management

Tension #4

Region vs Country

Tension #5

Local vs Global

Tension #6

Now vs Later

Tension #7

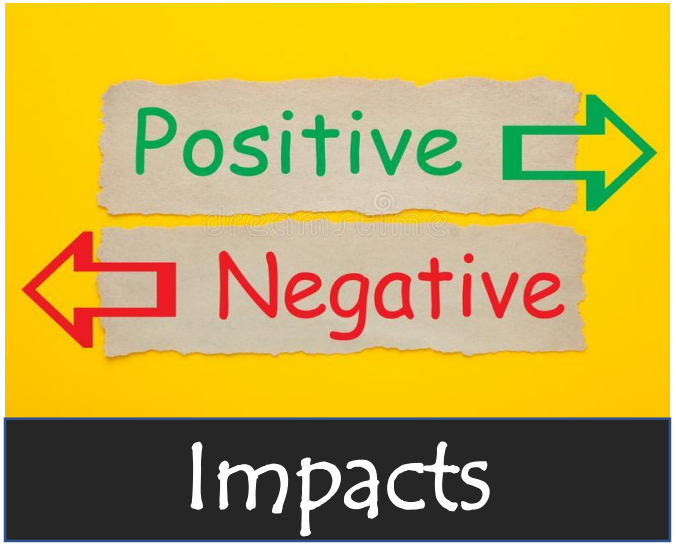
Regulation vs Voluntary Compliance

Tension #8

Risks vs Opportunities

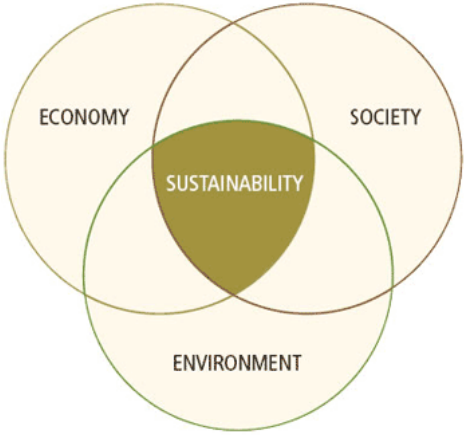
Tension #9

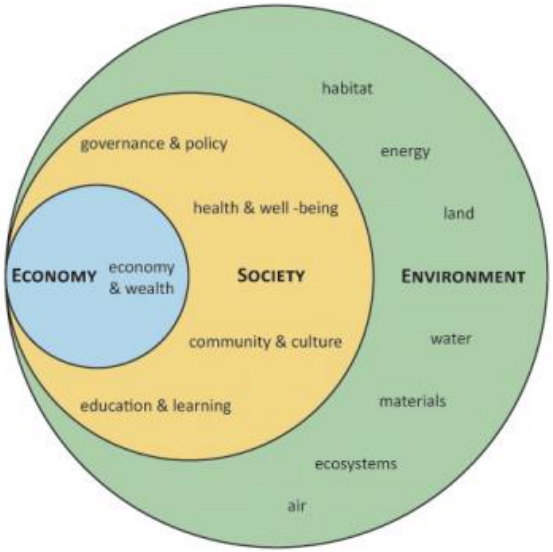
Positive vs Negative Impacts



Tension #10

Partial vs Holistic Sustainability Approach



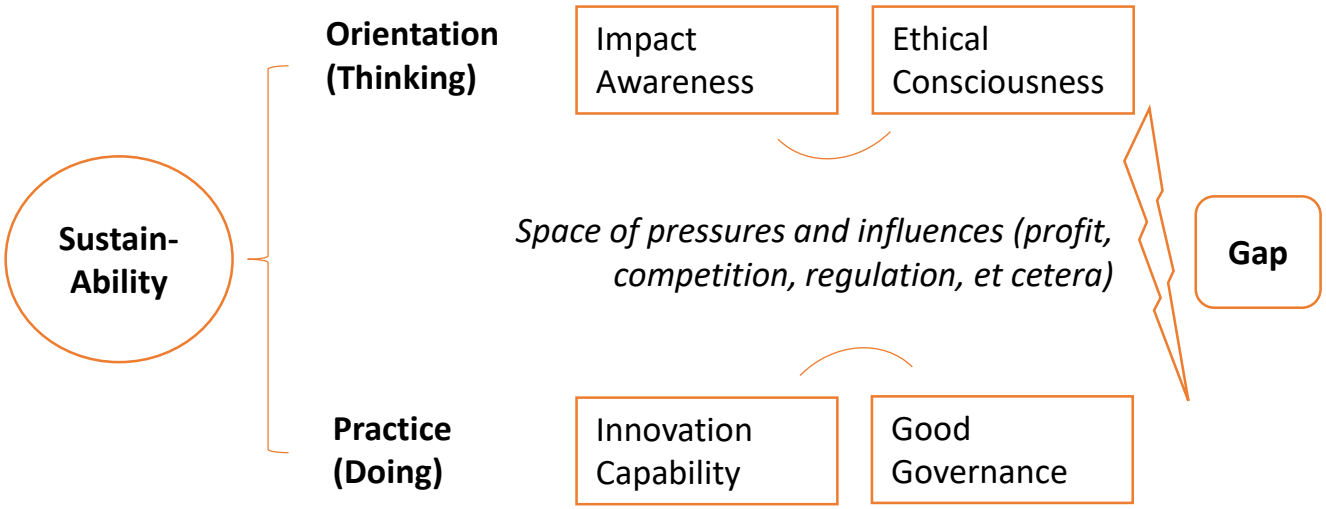


Tension #11

Individualism vs Collectivism

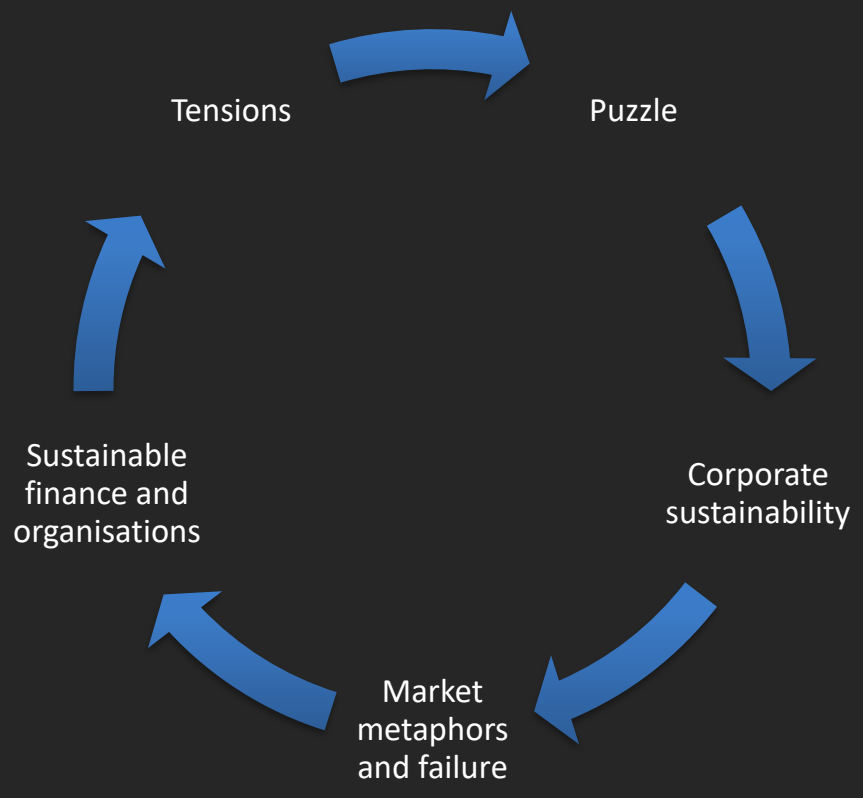
Tension #12

Thinking vs Doing



Amaeshi and Nnoli (2018)

Summary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Thank You!

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