DANIEL HANNA

Global Head, Sustainable Finance, Standard Chartered Bank

Improving sustainability reporting to catalyse private finance

It has been a challenging year. The growth in sustainable finance and the momentum to 'build back better' in response to the Coronavirus pandemic are small positives but are important ones that can set us on the path to a more environmentally and socially sustainable world.

Complementary to this growth, we are seeing the steady and inexorable shift from the consideration of environmental, social and governance (ESG) issues as reputational matters to a reflection of a company's performance.

This is an important driver of capital inflows to 'sustainable', 'ESG' or 'climate' activities. It also raises the bar on the volume of information that the financial sector needs from its clients in identifying the underlying economic activity, and that it needs to provide to investors on the extent to which their investment has enabled sustainable outcomes.

The drive for more information is not just coming from the financial sector. Our 'Zeronomics' report (https://www.sc.com/en/insights/zeronomics/) shows 81% of senior managers of companies want standardised, globally consistent measurement and reporting standards and believe these would help accelerate their net-zero journey.

Reporting frameworks are a critical tool in unlocking investment in the fight against climate change and the delivery of sustainable development globally. Yet we know that access to capital remains a key barrier. The financing required to keep global warming to an increase of just 1.5 °C may be as high as USD8 trillion annually, and the UN estimates that the funding gap to reach the Sustainable Development Goals (SDGs) by 2030 is USD2.5 trillion a year.

As policymakers consider how best to enable sustainable or climate finance through reporting frameworks, we encourage progress in three areas.

First, greater focus on transition. Many of the frameworks put in place are backward facing, yet we are united in the goal of enabling the transition to low-carbon, which implies we are not where we want to be. Taxonomies, in this context, give a clear view of 'green' or, in the EU's case, 'net-zero aligned' exposures, but that is not the same as understanding a company's direction of travel and progress against those targets. Given the planet's finite resources, we also encourage moving the wider economy to reporting on a 'double materiality' basis to help in investment decision making, though financial materiality will take longer to establish.

Second, international consistency and the avoidance of fragmentation. More effort is required to increase, improve and harmonise data and disclosures from all sectors of the economy, in particular from emerging markets which are the most at risk from climate change but also represent the biggest investment opportunities. Information is improving thanks to initiatives such as the Task Force on Climate-related Financial Disclosures. However, the quality and consistency of broader sustainability data is often poor, non-comparable and inconsistently disclosed.

Internationally, we are seeing fragmentation undermine progress. The proliferation of taxonomies for example prevents interoperability, increases the compliance burden on companies operating across multiple markets, and ultimately prevents global sustainable capital mobility. The International Platform on Sustainable Finance has great promise in bringing about convergence.

Finally, as we emerge from the Covid crisis with constrained resources, we need to recognise that **impact matters as much as volume; indeed 'where' may be more important than 'how much'**. A dollar invested can have a significantly different outcome depending on where and how it is deployed. As our first sustainable finance impact report (https://av.sc.com/corp-en/content/docs/Sustainable-Finance-Impact-Report-Sept2020.pdf) highlighted, financing a solar project in India will help avoid more than seven times the CO_2 from a similar-sized project in France given the current sources of power on those countries' grids. This is why we are proud that out of our USD3.9 billion of verified sustainable financing, 91% is in emerging markets and 86 per cent is in some of the world's least developed nations.

With the right frameworks put in place, with the EU leading on this important agenda, we can ensure that we meet the next global crisis – the climate crisis – head on.