

La sélection de l'Opinion

Sustainable Finance

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Climate and biodiversity: why is the financial sector scaling up?



SIPA PRESS

Funding gap

Investments required to achieve the Sustainable Development Goals are estimated at more than \$5 trillion per year. The financial sector is a key actor in the transformation needed to limit global warming and the decline in biodiversity. L'Opinion gives the floor to eight key observers.

Muriel Motte

With the French President recently appointed as co-head of a "Climate Finance" mission by the Secretary-General of the United Nations, France must be exemplary in this area! The publication of the Intergovernmental Panel on Climate Change (IPCC) report at the beginning of October highlighted the urgency of this topic. Their experts want to believe that containing the threatening global warming is still possible. But the world needs to introduce "rapid" and "unprecedented" changes, if it wishes to limit global warming increases to 1.5°C. The planet is otherwise doomed to suffer all manner of natural disasters, the extinction of species, heatwaves, rising water levels etc.

These "rapid" changes obviously require the commitment of global public authorities. "We are not short of solutions, we are short of political will", regrets Morgane Créach, the Director of Réseau Action Climat. They also require the involvement of the private sector, not to mention the key ingredient: financing. According to the French President, "it is necessary to reallocate a third of the world's finance to new climate response measures".

Promises were not in short supply during the One Planet Summit at the end of September in New York. Europe announced that it would be allocating 25% of the next EU budget (2021-27) amounting to €320 billion, to climate-related goals, namely regional integration policies, energy, transport, re-

search, and agriculture, as well as development aid. Similarly, the World Bank will be investing one billion dollars to accelerate the roll-out of energy storage batteries in developing countries.

In his capacity as "leader of a high-level initiative" seeking to accelerate private investment, businessman Michael Bloomberg undertook in parallel to set up a Wall Street network to encourage sustainable and more environmentally friendly financial innovations, the "Wall Street Network on Sustainable Finance". Sovereign wealth funds, philanthropists, governments, and private investors also promised to continue developing and investing in new financial products dedicated to climate infrastructure.

Impact funds. In concrete terms, the French have been especially sensitive to these causes for many years. In asset management, the amounts allocated to "responsible" investments have just crossed the symbolic threshold of €1 trillion, which almost equals one third of the entire assets under management in France. And savers would like to do more. According to an Ifop survey carried out during Sustainable Finance Week, 63% insist they pay significant attention to the environmental impact of their investment decisions, but only 5% say they have been offered a product designated as an "SRI" (Socially Responsible Investment) by their financial adviser.

Finance itself is becoming ever greener. Sometimes to resonating pronouncements. The head of Norway's sovereign wealth fund, with more than \$1 trillion under management, recently reiterated his intention to divest from

Banks are withdrawing one after the other from financing highly polluting fossil fuels in the wake of the World Bank

their oil and gas holdings. This is quite a feat for a fund built on the hydrocarbon revenue of the country, which is rightly seeking to ringfence its investments from the price volatility of Brent Crude. He is also clearly committed to another fight, namely the preservation of marine biodiversity. He recently set out his expectations in this area for the boards of the companies in which the fund invests.

For their part, banks are withdrawing one after the other from financing highly polluting fossil fuels in the wake of the World Bank. Although NGOs are criticising them for not moving fast enough, in reality they are shifting their investment models towards more renewable energies. This is the case with the large French banks Crédit Agricole, Société Générale, Natixis, and BNP Paribas. In addition, the latter has been working for almost a year alongside UN Environment to set up collaborative partnerships "aimed at raising development capital to drive sustainable economic growth in emerging countries". The target: raising \$10 billion by 2025 from private sector investors, to be invested in various projects including the development of renewables, landscape and forest protection and restoration, improved smallholder agriculture etc.

In addition to traditional green bond issues, finance is also continuing to innovate at all levels, evidenced by the investment of the Louvre Endowment Fund in an "impact fund" managed by Alter Equity. The goal is to contribute to the protection of the environment (biodiversity, coastlines) and the restoration of sites of interest, churches, and castles. Specifically, a "share of the profit sharing" will pay 5% to unit holders, including the Louvre Endowment Fund. Any profit in excess of this 5% will be allocated to the preservation of France's natural and constructed heritage. The famous French museum has been committed to an "impact investing" strategy for two years. This category today represents 3% of the overall portfolio of its endowment fund.

The Louvre is not alone in this. Impact funds are beginning to expand, which is a sign of the proliferation of initiatives seeking to respond to investors ever more concerned with "sustainability" criteria. Where will sustainable finance be in five years? "I hope sustainable finance will quite simply be a major component of the financial sector", says Pierre Rousseau, Senior Strategic Advisor for Sustainable Business at BNP Paribas.

@murielmotte

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Funding gap

Frédéric Janbon

Supporting the necessary move to a low-carbon world



AT BNP PARIBAS ASSET MANAGEMENT, we believe in a low-carbon, responsible, and inclusive economic growth model, essential in delivering sustainable long-term returns on the investments entrusted to us by our clients. Since 2011, we have been applying ESG (Environmental, Social, Governance) criteria to all our open funds by way of sectoral policies and the exclusion of businesses that breach the Global Compact of the United Nations. Starting in 2020, all our investment procedures will include precise and demonstrable ESG criteria.



FRÉDÉRIC JANBON

New global challenges, such as global warming, the increase in social inequality, the exhaustion of natural resources, and the destruction of biodiversity can have a serious impact on the performance of businesses. Those businesses that best adapt to the great upheavals of our century represent investment opportunities.

Our role as an investor is to assess whether businesses are managing such risks and whether they are capable of profiting from the market opportunities created. Such an analysis requires reliable and comprehensive information from the businesses themselves.

During the negotiation of the Paris Agreement in the context of the COP21 in 2015, we committed to align our investments with a global warming target of no more than 2°C. In order to do so, we undertook to assess and disclose the carbon footprint of our portfolios.

While the carbon footprint is an important indicator, it is however not sufficient to analyse properly the exposure of our investments to the risks associated with global warming. It is a snapshot of the past. We have to move to a forward-looking analysis. To be able to do so, it is necessary for the businesses in which we invest to provide us with the data required for our risk assessment purposes and information on their future carbon intensity targets, as well as their strategy for aligning their activities with the Paris Agreement targets. Yet only six out of the twenty largest electricity generators in the world have published a carbon intensity target through to 2030. Only three oil and gas producers have carbon content targets for the energy produced by them across their entire value chain.

In order to encourage businesses to improve their transparency, we have two tools at our disposal: votes at their Annual General Meetings and shareholder commitment.

We modified our voting policy to be able to refrain from voting to approve the accounts of businesses that do not disclose their carbon footprint, their 2°C strategy, or that refuse any dialogue on the impact of their activities in terms of global warming.

We also strengthened our commitment to encourage businesses to change their practices, either individually or through collective action. For example, we are engaged in dialogue with seven businesses in the context of the Climate Action 100+ initiative, launched during the One Planet Summit held in Paris in December 2017. This initiative requires the 100 businesses across the world that emit the most greenhouse gases to improve their transparency, reduce their emissions along their entire value chain, and have their boards pay more attention to climate considerations.

We take part in the work of the Task Force on Climate-related Financial Disclosure (TCFD) and in other working groups that seek to make public policy more compatible with climate goals. We are therefore a member of the technical group set up by the European Commission to assist with the implementation of its sustainable finance action plan.

We give precedence to commitment and dialogue over exclusion, as the latter does not make it possible to change practices. Our ambition is to support the necessary move to a low-carbon world, which will be an indicator of more sustainable and inclusive growth. In order for this to happen, we are focusing on three areas. These appear to us to be inseparable from such growth: the energy transition, the preservation of the environment, and social equality.

Frédéric Janbon is Chief Executive Officer and Board Member of BNP Paribas Asset Management Holding.

Sustainable finance

“We have to show that investing in green opportunities can be profitable”

FOLLOWING a 20-year long career at the World Bank as a Health Specialist, Joyce Msuya was appointed by United Nations Secretary General Antonio Guterres, in August 2018 as Deputy Executive Director of the United Nations Environment Programme (UN Environment). She was recently appointed as Acting Executive Director. Ms Msuya, a native of Tanzania, holds a Master of Science in Microbiology and Immunology from the University of Ottawa (Canada) and a Bachelor from the University of Strathclyde (Scotland). She also studied at Harvard Business School and Johns Hopkins University (USA).



JOYCE MSUYA

for example on climate change or inclusive growth that does not compromise the environment, we have to try to move the markets and work more closely with the private sector. After all, this is where big innovations will come from, and where there is a huge financing gap in government development budgets.

How did the cooperation with BNP Paribas come about? How can you convince the financial sector that sustainable development can be attractive to investors?

This is a partnership that was born from years of work trying to build bridges between the environmental community and the financial sector. The key has really been to lay out the case that sustainable investments are good investments, and that green businesses are good businesses. We are presently working on unlocking up to \$10 billion in finance to support smallholder projects related to renewable energy access, agroforestry, water access and responsible agriculture among other sustainable activities. I'm optimistic that this will really shift markets away from

The main role of the United Nations is to bring governments and people closer together and help solve common challenges

What is the UN Environment's area of intervention, its budget and the areas of investments?

Our primary objective is really to take the latest scientific developments on the environment and help turn these into policy action. For example, we sounded the alarm on plastic pollution in the oceans and are now helping drive government action. As hosts of the Montreal Protocol, we're working on the recovery of the Ozone layer. We are also working on the elimination of dangerous chemicals like mercury, improving air quality in cities and tackling the illegal trade in wildlife. We have a wide scope of activities and in financial terms are quite a lean organisation!

How would you assess your role in linking investors with promoters of sustainable development projects?

The main role of the United Nations is to bring governments and people closer together and help solve common challenges. For too long, however, we haven't been working closely enough with big investors and the private sector. If we want to see the change we need,

“As far as development is concerned, requirements are estimated in the trillions, public financing in the billions”

FORMER Chief Financial Officer of the World Bank, Bertrand Badré is the CEO of Blue like an Orange Sustainable Capital. He is also the author of *Can finance save the world?*

What is the order of magnitude when talking about international finance and development?

I studied this question in a report for the IMF, the World Bank, the European Investment Bank, all development banks, entitled *From Billions to Trillions*. The equation is not a very complicated one: global GDP is \$100 trillion and the funds required to combat climate change and foster sustainable development amount to more than \$5 trillion per year. Contributions of the World Bank, the IMF, and all other public institutions come to \$100 to \$200 billion per year. Public development assistance is \$150 billion per year. Lastly, developed countries committed in 2009 in Copenhagen to provide developing and emerging countries with \$100 billion per year starting in 2020. On the one hand, trillions are needed, and on the other, public financing is available

I would prefer the Paris market 15 years down the line to be one where strategies to finance long-term projects are defined, in particular through PPPs, climate-friendly projects, and projects promoting development and health, etc

only in billions. There is a big gap. We have to think about how to go from billions to trillions.

What is the initial course to pursue?

It will first be necessary to dip into the “domestic purse”, as the allocation of domestic public and private resources makes it possible to overcome the lion's share of the gap between amounts required and the resources available identified above. To ensure this, it is necessary for the most vulnerable countries to put in place a sound fiscal system in terms of taxes and collection methods. We should not close our eyes to the facts: the level of compulsory taxes in France before the Revolution was at 10%, today it is at 45%. It therefore took us 200 years to make such a move. It is not easy to tell a developing country it must increase its compulsory taxes from 12% to 18%, as this means promoting a more formal economic system, having people agree to pay income tax or VAT, and telling the country to stop living solely from customs duties, for example. In order to pay for hospitals and roads, it is firstly necessary to call upon taxpayers. But what qualifies as “domestic resource mobilisation” also requires savings. In order to develop a country, it is accepted that physical infrastructure, bridges, and roads, are necessary. Then, social infrastructure, hospitals, and schools. We forget that financial infrastructure such as banks and insurance companies is also required. If, thanks to this, a country that has a GDP of 1 billion dollars, can increase its compulsory taxes from 12% to 18%, this amounts to \$600 million per year. It was through taxation and savings that the United States and Europe financed their development in the 19th century.

And what happens then?

It is necessary to mobilise international finance. Today, public-private partner-



BERTRAND BADRÉ

ships (PPP) are often mentioned with a view towards achieving this goal, but questioning on both sides has been increasing for a number of years. The private sector fears that the public sector is slow, bureaucratic, potentially corrupt, and practices favouritism. The public sector fears that the private sector will reap the rewards without taking any of the risk. It is necessary to develop a culture of working together, and this is difficult. I would like higher education

institutions in France, like those in Oxford and Singapore, to offer training on public-private dialogue. In fact, it is necessary to be multilingual, and speak public, private, and NGO. If you only speak one of these languages, you are immediately suspect.

Is that what you do at Blue like an Orange Sustainable Capital?

Yes, through funds (\$100 million) secured to date from AXA, CNP, HSBC, and Philippe Oddo, we often finance, alongside the Inter-American Development Bank, projects in Latin America with a positive social or environmental impact while promising a “return that compensates the risk taken”. Investors are not involved out of charity. There are philanthropic funds for that, and that is a very good thing. But it is possible to invest in developing countries and also make money in the normal way! I would be very happy if the talk at Paris Europlace is not only about how many traders from JP Morgan or Morgan Stanley are coming to Paris. I would prefer the Paris market 15 years down the line to be one where strategies to finance long-term projects are defined, in particular through PPPs, climate-friendly projects, and projects promoting development and health, etc.

Interview by Irène Inchauspé @iinchauspe

“The rules of the finance game are changing but we are still in midstream”

Pascal Canfin has been the Chief Executive Officer of WWF France since 2016. He was formerly a Member of the European Parliament and France's Minister for Development during the presidency of François Hollande.



PASCAL CANFIN

Why does finance have a special role to play in the decarbonisation of the economy?

The economy cannot operate without the life-blood of finance. If finance continues to invest in a world that is heading for a global warming of three, four, or five degrees, this is the world we are ultimately going to have. This is why, at the WWF, we are fighting on two major fronts. First, we are fighting for a better understanding of the risks associated with growing climatic hazards, be they tangible risks, such as the risk to infrastructure, or the risks associated with transitions to new technologies or risks associated with changes in public policy. These are growing systemic risks for the financial sector. Second, for the redirection of financing. Once the risks are properly understood, it is necessary to encourage and sometimes even oblige actors in the financial sector to divest their holdings in certain sectors, such as coal, for example, in order to move towards green technologies.

One of the challenges is dividing the effort between the public and private sector. Where are we in this regard?

The lion's share of the redirection of financing has to be the responsibility of the private sector. Publicly owned banks constitute a minority in the sector, so insurance companies, asset managers, and private bankers have an absolutely crucial role to play. If they do not change their investment structures, we are going to be living in a world that is three, four,

or five degrees warmer. So today we are midstream. The increase in awareness is genuine in the case of many private actors: commitments to divest from coal, an incremental increase in investment in renewable energies and even commitments to align all investments with a strategy that is compatible with the Paris Agreement. This was inconceivable three or four years ago. Discussions are currently taking place in the boardrooms of leading banks and insurance companies. This is good news. However the financial sector has not yet sufficiently acted on its words for it to be possible to say that, three years after the COP21, a vast majority of the relevant actors are on the right path.

Given that the increase in awareness is genuine, what is the next step?

The work being done is methodological. What does it mean for a bank or insurance company to be aligned with the Paris Agreement? We are currently working on this at the WWF and with all the leading French banks for example, but also within a global context,

The increase in awareness is genuine in the case of many private actors: commitments to divest from coal, an incremental increase in investment in renewable energies

in order to produce next year a methodological framework. In the meantime, we welcome the initiatives taken by certain players, in particular in the insurance sector, that enable us to determine whether or not all the asset management activities of this or that insurer are aligned with the two degree level. This thermometer is interesting as it allows us to determine the ground we still have to cover. We are encouraging this work, because it at least enables us to assess non-alignment, and then to progressively take action.

Is the creation of a Green Climate Fund of 100 billion dollars in annual climate finance still possible by 2020?

This money corresponds to public commitments given in the context of the Copenhagen Agreement of 2009. This has nothing to do with the massive volumes of financing required to transform the financing of the global economy. We are taking about trillions of dollars! States clearly have to keep their promises and, in line with current calculations, approximately \$80 billion has already been pledged. There is therefore a possibility, which I believe to be credible, that the target will be reached by 2020. Nonetheless, this is not the core issue. The real issue is how we change the rules of the finance game in order to go much further. This is the job of central bankers and the European Commission, etc. I would like to point out that 2018 was very useful from this perspective. Until this year, central bankers remained relatively in the background. They have created a network of central banks, led by the Banque de France, and are now ready to make commitments. In particular a commitment to compel bankers under their supervision in the context of banking regulations to take the risk of climate change into account. A discussion is going on in Europe, and it is evident that the rules of the game are changing.

Interview by Raphaël Proust
@raphaelproust

“L&Q combine social purpose with commercial drive”

WAQAR AHMED is Group Finance Director at L&Q, a regulated charitable housing association. The Group houses around 250,000 people in more than 92,000 homes across London and the South East.

You signed a positive incentive loan with BNP Paribas. Could you explain in a few words the guiding philosophy behind this operation?

L&Q is a regulated charitable housing association and one of the UK's most successful independent social businesses. The L&Q Group houses around 250,000 people in more than 92,000 homes, primarily across London and the South East. Over the next 10 years we will build another 100,000 quality new homes, at least half of which will be genuinely affordable. Everything we do begins with social purpose. Our vision is for everyone to have a quality home they can afford, and we combine our social purpose with commercial drive to create homes and neighbourhoods everyone can be proud of. This positive incentive loan with BNP Paribas aligns perfectly with our guiding philosophy.

What makes this positive incentive loan innovating? Going forward, will all L&Q financing aim to address sustainable financing challenges?

Through our Independent Lives programme, L&Q undertakes capacity building by working directly with our residents and others in the wider community to develop their employability skills and find appropriate and sustainable jobs. Under the terms of the agreement with BNP Paribas, L&Q will benefit from an undisclosed discount on the margin of the loan if we succeed in getting at least 600 unemployed resi-



WAQAR AHMED

dents back into work in the first year, rising by an additional 25 residents in each subsequent year. It is innovative because to our knowledge, this is the first ever UK housing association loan that incorporates a concrete, positive impact metric.

For L&Q, is this a way to attract new investors? Or a way to open a discussion on what your association does?

Through the L&Q Foundation we are investing £250 million to transform communities and help people lead independent lives. By forging strong relationships with partners, we are able to deliver even greater charitable outcomes. BNP Paribas is exactly the sort of partner we are looking for, and we are delighted to have completed this ground-breaking deal with them. The team at BNP Paribas shares our sense of social purpose, and our combined vision is going to help hundreds more people into employment every year. We hope that other investors learn about this fantastic deal, and it inspires them to come forward and have a conversation with us.

Could this new type of financing encourage you to further develop new projects and new missions?

The loan includes the possibility of adding an environmental key performance indicator later in the life of the facility. This will supplement the existing discount available to L&Q if we meet the social impact target.

Interview by l'Opinion

Funding gap Antoine Sire

Ensuring that socially responsible investment becomes the norm

AFTER THE SECOND WORLD WAR, finance helped the middle classes in the West access modern comforts, housing, and infrastructure. Starting in the 1980s, it accompanied globalisation, the emergence of new economic powers, and the development of a digital economy. Today, the principal challenge facing financial actors is helping humanity preserve these gains while avoiding the disasters that would result from global warming, increased inequality, and regional divisions.

In 2015, the UN published 17 Sustainable Development Goals that constitute a “compass” to assist States and businesses in bringing about the new and positive economy our world needs. According to analyses, cited by Antonio Guterres, the Secretary-General of the UN, achieving such goals would require between \$5 and \$7 trillion in public and private funds every year through 2030!

Banks could contribute to this, but their ability to finance large long-term transformative projects is limited, in particular by regulation. In addition, the majority of capital available today is not held by banks but by investors - asset managers, pension funds, and insurance companies - who manage the considerable amounts invested by the citizens of the developed world in preparation for their retirement. If banks do have a major role to play in the implementation of the Sustainable Development Goals, this is primarily because their position at the crossroads of financial markets

provides them with plenty of opportunities to take action. They disseminate throughout the world high standards in terms of ecology and respect for human rights, by incorporating social and environmental responsibility considerations into their criteria for granting loans to businesses. They develop and structure new tools specifically designed to promote more ecological and inclusive growth: green bonds, positive incentive loans, and social impact loans. Lastly, they seek to identify new solutions alongside international organisations, multilateral development banks, governments, NGOs, and investors, in order to offset the public sector's inability to finance alone the large-scale and common-good projects that our world needs.

BNP Paribas, which was named the 2018 World's Best Bank for Sustainable Finance by Euromoney magazine, incorporated the 17 Sustainable Development Goals into its business plan, and it drew up indicators to assess the percentage of its loans that contribute directly to these Goals, as well as a method for increasing such percentages. In a few years our Group became the global leader in green bonds and supported the significant growth of positive incentive loans, under which the rate of interest payable by clients - who include Danone



ANTOINE SIRE

and Accor - is linked to their achievement of the Sustainable Development Goals. At the same time, BNP Paribas exited certain sectors such as coal, non-conventional hydrocarbons, and tobacco, while deciding to increase the financing provided to renewable energy sectors to €15 billion by 2020, and by becoming a member of the Breakthrough

Energy Coalition led by Bill Gates in order to promote the innovations that will make an ecological difference. BNP Paribas also entered into a partnership with the Environment Programme of the United Nations, the objective of which is to ensure financing by investors of large projects designed with NGOs capable of being transformative at a national level, in which the restoration of biodiversity and the fight against poverty go hand in hand. The Group's businesses specialising in insurance and asset management put in place focused policies to ensure that socially responsible investment becomes the norm. All of these commitments are of fundamental importance to us, because we see in them an essential component of our business model for tomorrow and because we want to create a bank about which we can speak to our children with pride.

Antoine Sire is Head of Company Engagement - BNP Paribas.

“I hope that in five years sustainable finance will quite simply be a major component of the financial sector”

PIERRE ROUSSEAU is Senior Strategic Advisor for Sustainable Business at BNP Paribas.

Emmanuel Macron suggested reallocating a third of the world's finance to new climate response measures. Is this credible or even possible?

In the context of climate and biodiversity related matters, it is necessary to be ambitious and to jolt others into action. Most importantly, we need to move beyond fear into action. In order to achieve global decarbonisation, protect biodiversity, and successfully achieve the UN's 17 Sustainable Development Goals, we will need to raise a lot of funds, both public and private. The IPCC's most recent report highlighted the urgency of these matters. Finance is the indispensable fuel; this was the meaning of the President's message.

How might it be possible to attract capital to “sustainable” projects? Through financial innovations? Promises of strong returns?

Global capital is not in short supply! If we want to focus finance - a highly regulated sector - on environmental and societal concerns, it will be necessary to reinvent traditional financing and to align the regulatory framework with the goals to be achieved. Second: finance is going to have to review its operating methods. Finance functions in a bubble, on a fragmented basis, whilst the future is a collaborative endeavour. Finance must also integrate external factors on a more systematic basis. Today, we connect financial performance to the level of risk taken. Tomorrow, it will be necessary to assess the impact of investments in terms of the environment and other ESG criteria, which means being able to measure such factors and integrate big data. The issue is one of trust. The more transparency there is around the decisions made, the easier it will be to attract capital.

Is finance already changing?

A circular economy is gradually taking shape. This means in particular the growth of leasing. Rather than purchasing things, people are leasing them. When the owner recovers his property, he can reuse or recycle it. Today, leasing is not one of the main activities in the financial sector, but this is going to change. The other emerging trend, and one that is a focus for BNP Paribas, is “blended finance”. This takes environmental issues into account, namely a mixture of philanthropy and finance, public and private funds, or the association of “impact investing” with traditional finance. This is a question of mobilising all available resources in the context of developing joint projects. For example, we are going to extend the offerings of multilateral development banks by accepting their guarantees to back private projects. We are also aligning philanthropic funds with commercial projects and we are working more and more with microfinance. This helps in particular farmers in emerging economies to adopt more virtuous agricultural practices. Our role is to streamline the financing.

What difficulties are banks confronting when trying to advance in these areas?

The capital markets are evolving, with green bonds, social bonds, and sustainable bonds. We are still at a very early stage of this process



PIERRE ROUSSEAU

The first difficulty is working with the multiple stakeholders involved in a project, as aligning interests is no easy thing. The other constraint is that we live in a world dictated by the short term. For example, listed companies have quarterly obligations, yet all sustainable investments and “sustainability” itself are based on strategy and therefore focused on the long term. Lastly, banks need to move from a world of banking products to a world of solutions. This generates constraints internally as promoting a product to a client and finding a solution for a client requires a very different skill-set.

What are the main commitments of BNP Paribas in terms of sustainable finance?

Our working methods are changing a great deal. Before, the bank was characterised by direct financing: deposits were required to grant loans. Today, the bank is financing less and less, for regulatory reasons. The capital markets are evolving, with green bonds, social bonds, and sustainable bonds. We are still at a very early stage of this process. As for the final investor, various categories are emerging. Alongside traditional pension funds and institutional investors, we are seeing the emergence of funds with a sustainable focus, namely “impact investors”. The bank plays an intermediary role between these various stakeholders. Its clients are changing, in line with the incremental increase in the number of businesses with an environmental association. BNP Paribas is extending its solutions in the field of financing for solar energy, big data and electricity. Another significant trend is the development of the bonus/penalty system. In the transport of goods, for example, we are verifying more and more the traceability of products. If environmental standards and UN

principles are complied with, the business is financed with favourable terms, and conversely the opposite occurs. BNP Paribas is currently working in this manner with a footwear manufacturer, for which we verify the origins and processing of its leather. Lastly, we are working on developing “sustainable” investment products for the general public. This is a specific case where regulation must adapt in order to ensure accessibility to the largest possible number of people.

What do you think of the “Wall Street Network on Sustainable Finance” promoted by Michael Bloomberg? Which structuring initiatives have been put in place?

Similar initiatives already exist. In particular of the Financial Centers for Sustainability (FC4S) of the United Nations Environment Programme (UNEP). It is a question of making Europe's financial centres more accountable in sustainable finance issues. For example, Paris, London, Dublin, Geneva, Frankfurt, and Milan have joined together to promote all aspects of sustainability. Other Asian cities have joined the initiative, such as Shanghai, Shenzhen, and Guangzhou. The number of relays is growing. They will make it possible to speed up the process. Moreover, we do not have a choice, we need to act now.

What is your vision of sustainable finance in five years?

There is a great need for a global ecological and social transformation, as expressed in the UN's Sustainable Development Goals. Finance has an unprecedented opportunity to play a positive role for humanity and the planet. I hope that in five years sustainable finance will quite simply be a major component of the financial sector.

Interview by Muriel Motte @murielmotte

“It is impossible to hope for sustainable performance if businesses have not defined their own ‘sense of purpose’”

JEAN-FRANÇOIS CIRELLI is the President of BlackRock for France, Belgium, and Luxembourg. The management titan BlackRock - with 6.4 trillion dollars of assets under management, more than twice the GDP of France - is the largest shareholder in one out of five US corporations. It also holds shares in many CAC40 companies.

Would you say that, due to its significance, finance has a duty to set an example in terms of transforming the world?

I am and I remain certain that the transformation of the world is first and foremost the job of our political leaders, who are the sole representatives of the public interest. By definition, any economic sector represents special interests; this is also true in the case of finance. However, throughout the world governments in numerous countries are not making sufficient preparations for the future. At the same time, finance and the private sector are being asked to take up numerous challenges. Larry Fink, the CEO and Chairman of BlackRock, believes that in order to be successful in the long term, a business must make a positive contribution to society. Our role is to manage the money of our clients. We can advise them but ultimately it is they who decide where they want to invest.

The big asset managers, of which BlackRock is at the forefront, are very influential. Shouldn't they be more involved and more active at AGMs in order to encourage companies to be more virtuous?

We are already very active. BlackRock's principle is to vote directly at AGMs. We have a dedicated team of thirty people who do so, and this team is going to double in size over the coming years. One of the defining characteristics of BlackRock is the transparency about what we do. Anyone can see our

priorities and our votes. Another characteristic is dialogue ahead of AGMs. We do not take a punitive view of these things. The foundation of our investment is that long-term financial performance must take into account environmental, social, and governance factors. In 2017, we participated in 1,600 meetings with the companies in which we are shareholders. In 37% of the cases we voted against one or more resolutions and in 9% of cases we went against their management. There are other ways of taking action. In December 2017, Larry Fink wrote to 120 of the largest CO₂ emitters in the US to ask them to publish details of their environmental risks and the manner in which they deal with them. It should be understood that one of the strengths of BlackRock is its index-linked management. A third of the assets under management with us are invested in index-linked instruments (iShares). We are automatically shareholders in the companies that make up these indices, which heightens our shareholder vigilance.

NGOs accuse BlackRock of being heavily invested in polluting companies, those linked to coal in particular.

NGOs are doing their job by challenging the financial sector, even if I do believe that a lot has already been achieved. We have funds that make it possible to avoid coal, but it should not be forgotten that BlackRock acts for the most part on the basis of management mandates. Our clients are the ones who make the decisions. I shall now don my cap as a former energy professional. The reality is that coal accounts for more than 50% of the electrical power generated in many Asian countries, in Poland, and even in Germany. It is not reasonable to consider plunging these countries into darkness overnight.



JEAN-FRANÇOIS CIRELLI

What do you think of “social impact contracts” and “positive incentive loans”? Might BlackRock invest in products of this kind?

Not for the moment. These are financial innovations, which raises two challenges. Their standardisation: what exactly are these products comprised of, what guarantees do they offer, and how can we measure their performance? The second issue is the liquidity of these products. We require access to a universe of underlying assets that is broad enough to be able to offer a large-scale investment product providing our clients the ability to exit at any time. These issues no longer arise with green bonds, which have developed significantly.

At the last One Planet Summit, philanthropists and fund managers including BlackRock announced they wanted to create new investment tools. What type of tools?

We are very proud to participate in this initiative driven by Emmanuel Macron. It involves creating a fund that would combine public financing - we have two leading governments, France and Germany - and financing from large private foundations, in particular Ikea and Hewlett. The idea is to create a vehicle to be managed by BlackRock

with investments focused on clean energies in Asia, Africa, and South America. We hope to be able to set this fund up in 2019. It should attract other investors.

The Energy Transition Law requires management companies to report on the incorporation of ESG criteria into their investment policy. What is your view on this?

The French regulations were devised in an intelligent way. It is a political choice: the regulations require reporting to investors without imposing a binding framework. This obliges them to have a tool enabling them to take environmental criteria into account, which gives everyone a fresh perspective. At BlackRock, the Aladdin platform makes it possible to instantly measure the environmental impact of investment decisions. We already have almost 500 billion dollars invested in ESG funds.

Larry Fink asks businesses to work towards the common good. Is it up to businesses to define what is virtuous?

BlackRock's position is somewhat unique, as 80% of the funds entrusted to us are there to guarantee retirement pensions. Our DNA forces us to invest long-term. This is what Larry Fink means: it is impossible to hope for sustainable performance if businesses have not themselves defined their own “sense of purpose”. This had a particular resonance in France at the time of the debate surrounding the Law on the action plan for changing companies' corporate purpose. It is a way of saying do not succumb to short-term pressures to distribute dividends to the detriment of growing a business. Today, anxiety is leading investors to hold a large part of their savings in cash. More than half the amounts available for investment are not being invested, and this is a major problem.

Interview by M.M.

Larry Fink, CEO & Chairman of BlackRock, believes that, in order to be successful in the long term, a business must make a positive contribution to society