International Sustainability Institute

Research programme

The policy of the ISICI is to set out a proposed research programme and invite support from individuals and firms sharing our philosophy and thoughts. The research programme of the ISICI relies on patronage and sponsorship. Commissions are accepted.

This research briefing outlines the backdrop in thinking to our present proposed programme in sustainable finance. The basic premise being that the newideas and new methods are needed to faciliate private capital of the scale required and accelerate cross border flows.

At present the following three papers are under consideration and development.

Matching supply and demand and risk adjusted returns in climate finance.

ESG marketing: is there such thing as a sustainability alpha?

Increasing flows to Sub-Saharan Africa through international finance centres. Rhetoric or reality? How can we improve?

Support for the programme or individual papers is welcomed. Abstracts are available on request. In the first instance email contact@isici.org.

About the ISICI

Founded by Dr Andy Sloan, the International Sustainability Institute was established to further the development of sustainable research and thought, advocating global fiscal and financial sustainability.

The Institute provides a forumfor the exchange and development of new ideas between stakeholders across the Channel Islands.

The work of the Institute is concentrated in the areas of global fiscal and financial sustainability. Areas where the Channel Islands have intellectual capital and professional expertise that be harnessed in the pursuit of global good. Through the development of a core research programme, the Institute contributes to global thinking on strategy and policy in these chosen policy areas.

It publishes a forward-looking schedule of planned research topics. Its research programme is open to proposals, contributions, and commissions. The Institute also provides advocacy and advisory services. Through a network of experts and researchers and leveraging the expertise of its founder, it can draw on experience of international policy work at the highest levels in fiscal, economics, finance services regulation and green and sustainable finance accrued over three decades.

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International Sustainability Institute

Developing sustainable research and thought

research briefing sustainable finance

'The scale of capital required to meet the sustainable goals of the UN continues to dwarf levels of actual investment. Mobilising private capital and wealth requires new thinking and ideas.

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Advocating global fiscal, environmental and financial sustainability

Despite the grand words at CoP, the stark truth is that net new investment into climate mitigation and adaption continues to fall woefully short of requirements. Pledges are not enough. There are a series of financing problems to resolve before private capital flows at the necessary scale and across borders to where it is most needed.

Economists agree. A global statutory carbon pricing regime would be the surest route to the elimination of harmful GHG emissions. As with world government, no such mechanism exists. Yet this should not preclude us from trying to develop pricing systems.

But lacking coercion, the United Nations uses persuasion and peer pressure, a process that many view as tortuously slow. Paris 2015 was pivotal in achieving a commitment to aligning financial flows to the goals of the IPCC. TCFD followed shortly. Momentum was achieved. Net zero commitments have flowed fulsomely in recent years yet real capital flows continue to fall short. In the meantime, a new reporting industry is being created.

There are various approaches that have been suggested as potentially providing answers; moving capital upstream closer towards early-stage companies and innovations; risk transformation and pooling between public and private capital via partnerships and hybridised structures. In the meantime, the rise of natural capital accounting (familiar to environmental economists of yesteryear) makes the case for ascribing a monetary value to natural assets, but property rights issues remain, to safeguard biodiversity,

Can traditional investment theory better make the case for climate finance? Robert Engle, Nobel Laureate in economics, summarises it quite simply like this: 'You think of climate risk as taking 50 years before you see anything but in the financial markets, this affects people's decisions today.' This impact is not sufficiently understood or priced. There is a green alpha that has yet to be properly demonstrated. Mandatory reporting regimes ought to be able to faciliate its calcuation.

> "Can traditional investment theory better make the case for climate finance?"

Transformational structuring

For many, the issue is clear cut, climate capital provides pecuniary and non-pecuniary returns. The latter a growing concern of the owners of private wealth and the philanthropic class. The desire to measure non-pecuniary factors has itself spawned a whole impact measuring industry alongside the ESG reporting movement. Yet for many, indeed the vast majority, returns on capital and preservation of wealth remains key.

The IPCC's Working Group III recognises matching supply of and demand for capital across borders as a critical issue. There is often a mismatch between the risk adjusted returns required by western investors and those from, for example, a micro climate-adaption project in sub–Saharan Africa. Financing adaptation is ripe for innovation.

The finance sectors of the Channel Islands have expertise to be harnessed and sourced to the world. They are practised in transformation of risk, the structuring of capital, and its routing cross border. In this area more than most there is potential to gift innovation to the world and achieve public good.

Public standards for private markets?

TCFD transformed the views of the finance sector towards climate finance in a way that not even its authors envisaged. Four years after Dr Ma Jun, Chief Economist at the Central Bank of China, put the report on the G20 agenda three times to 'get it some attention', it forms the bedrock of the mandatory disclosure requirements of many central banks.

It will form the cornerstone of the global standards of the newly created International Sustainable Standards Board. The UK has rolled out TCFD derived mandatory reporting across banks, insurers, life, pensions and asset managers. The regulatory perspective driven by prudential risk and conduct concerns. There is no hiding place or greenwashing under TCFD but costs of compliance are rarely discussed.

Private capital and assets generally fall out of scope of such requirements but are just as impacted. Correct assessment of climate risk is key to pricing decisions. Work is needed to align private measurement with public standards to, amongst other things, minimise unnecessary bureaucratic burden.