

Position Paper on Sustainable Finance

Introduction

Sustainable finance is a crucial element in reshaping how business, financial markets and governments interact with nature, people and society. It ensures that impacts and dependencies on four crucial capitals (natural, social, human and produced) are identified, measured and valued in all decision-making, to deliver a fairer, just and more sustainable world.

Notwithstanding the great progress made in greening finance – including through the EU’s Sustainable Finance Action Plan - it is clear that the financial system still has a long way to go in its sustainability journey. This Position Paper on Sustainable Finance sets out four messages from the Capitals Coalition to inspire and support this change.

Key messages

Key-message 1: Major additional policy actions are needed to transform economic and financial systems to enable delivering a fairer, just and more sustainable world.

Notwithstanding all the progress made to green economic and financial systems, we still are failing to address our most critical global challenges of nature loss, climate change and inequality. An underlying reason for this is that decisions are currently based on insufficient information that excludes nature and people. Improvements are under way, notably related to climate change, but these need to be broadened to nature and inequality as well and be more ambitious in terms of guidance and (legal) requirements to raise the bar for performance. To achieve this a fundamental transformation of economic and financial systems is needed that ensures that all capitals (natural, human, social and produced) are included in their decision making.

Key-message 2: The financial system must play a leading role in reshaping the math of (financial) success.

It should promote and support the way business, financial markets and governments identify, measure and value the relationship between nature, people and the economy. All material impacts and dependencies on natural, social, human and produced capital – for the whole supply chain and including consumer levels, as determined with stakeholders – should be measured, valued and included in financial decisions and risk assessments, using planetary boundaries and SDGs framing to capture negative and positive trends. The valuation may be qualitative, quantitative or monetary, to reflect the importance, value, and utility of natural capital, recognizing that nature’s intrinsic value cannot be fully captured in economic terms. Standardized frameworks and metrics that integrate the value of nature, people and society in decision-making and global market mechanisms are needed.

Key-message 3: Financial institutions should accelerate change by publicly supporting and help standardizing internationally accepted frameworks, tools and metrics to value impacts and dependencies on natural, human, social and produced capitals.

The financial sector can help spur the necessary further standardization and implementation of available frameworks, tools and metrics – such as the [Natural Capital Protocol](#), together with its [supplement to connect finance and natural capital](#), the [Social and Human Capital protocol](#) and the [ENCORE tool](#) – by promoting and supporting these, as well as by pilot-testing and contributing to additional aligned approaches, such as the [Environmental Generally Accepted Accounting Principles](#) that are now being developed in the context of the EU-funded Transparent project. Active involvement of the financial sector will help creating consistency on the coefficients and metrics used and, as a result of this, improve all actors' inability to provide a complete assessment of the materiality of relevant issues in relation to their performance.

Key-message 4: Strategies and policies for sustainable finance should be linked to changes other sectoral policies to ensure policy coherence.

Sustainable finance – how powerful it might be – will not deliver transformational change if it is not coupled with coherent policies for other sectors. The 'rules of the game' can only be changed with a coherent policy package. There is an urgent need to review and assess all financial incentive mechanisms (from both the financial sector as well as government) within sectoral policies, and redirect them towards sustainable use, resilience, restoration and circularity. The rules for corporate reporting should ensure that the value of nature, people and society is visible for the economy and considered in decision making. And both the financial sector and the whole of government should use the information from these reports in their engagement, policy development and reshaping of financial incentive mechanisms, to ensure that practices that deliver a more fair, just and sustainable world are rewarded.

Capitals Coalition

The Capitals Coalition is a global collaboration transforming the way decisions are made by including the value provided by nature, people and society. Our ambition is that by 2030 the majority of business, finance and government will include all capitals in their decision-making, and that this will deliver a fairer, just and more sustainable world.