Organisational transition in face of sustainability challenges

Professional training seminar, IFI, Tel Aviv

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Agenda

1. Sustainability challenges
2. Organisational goal
3. Transition thinking
4. Tools for sustainable finance

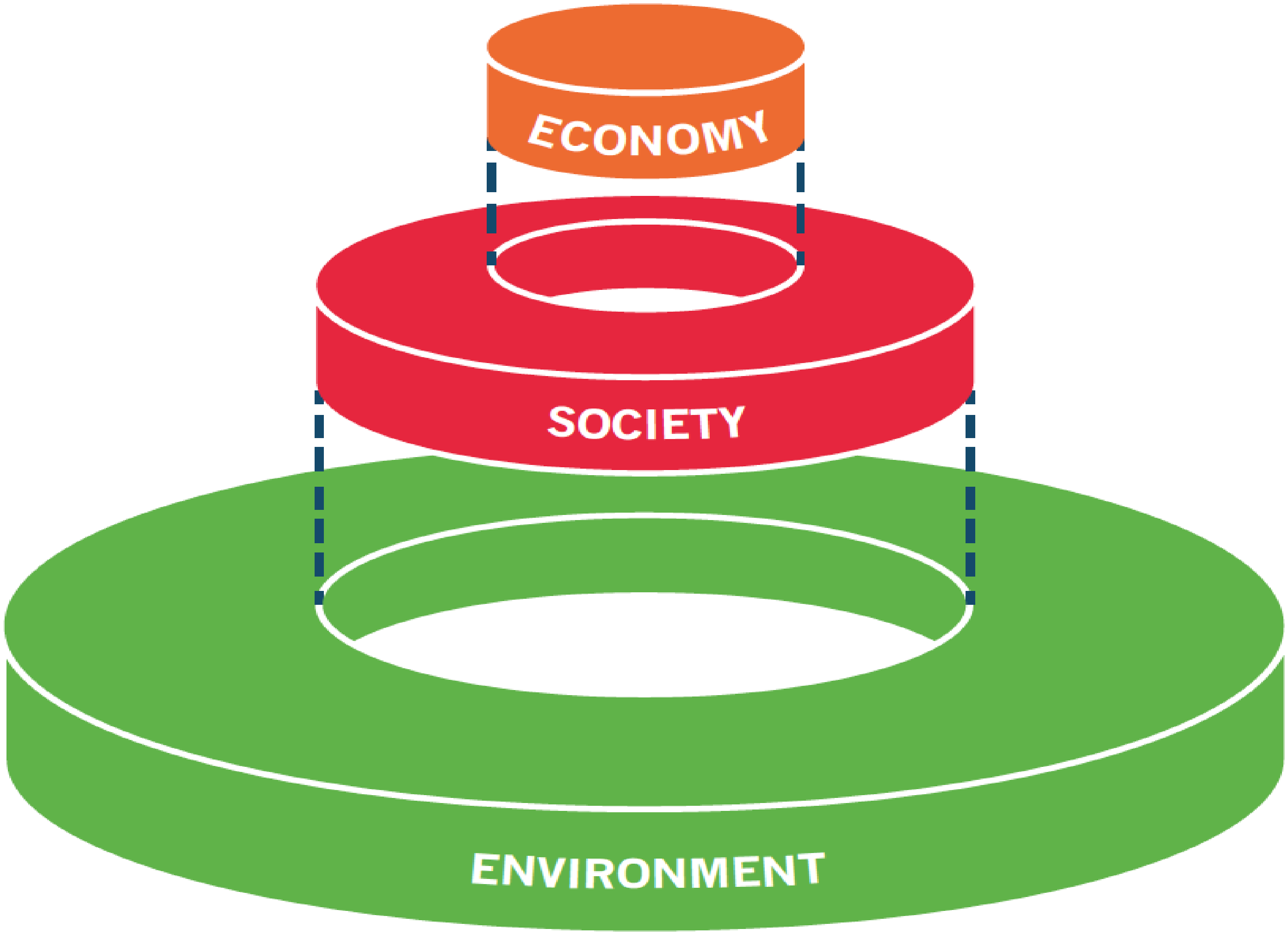
Materials:

- Principles of Sustainable Finance – Chapter 1
- Finance in Transition

Global goals for sustainable development

Graphics by Jerker Lokrantz/Azote

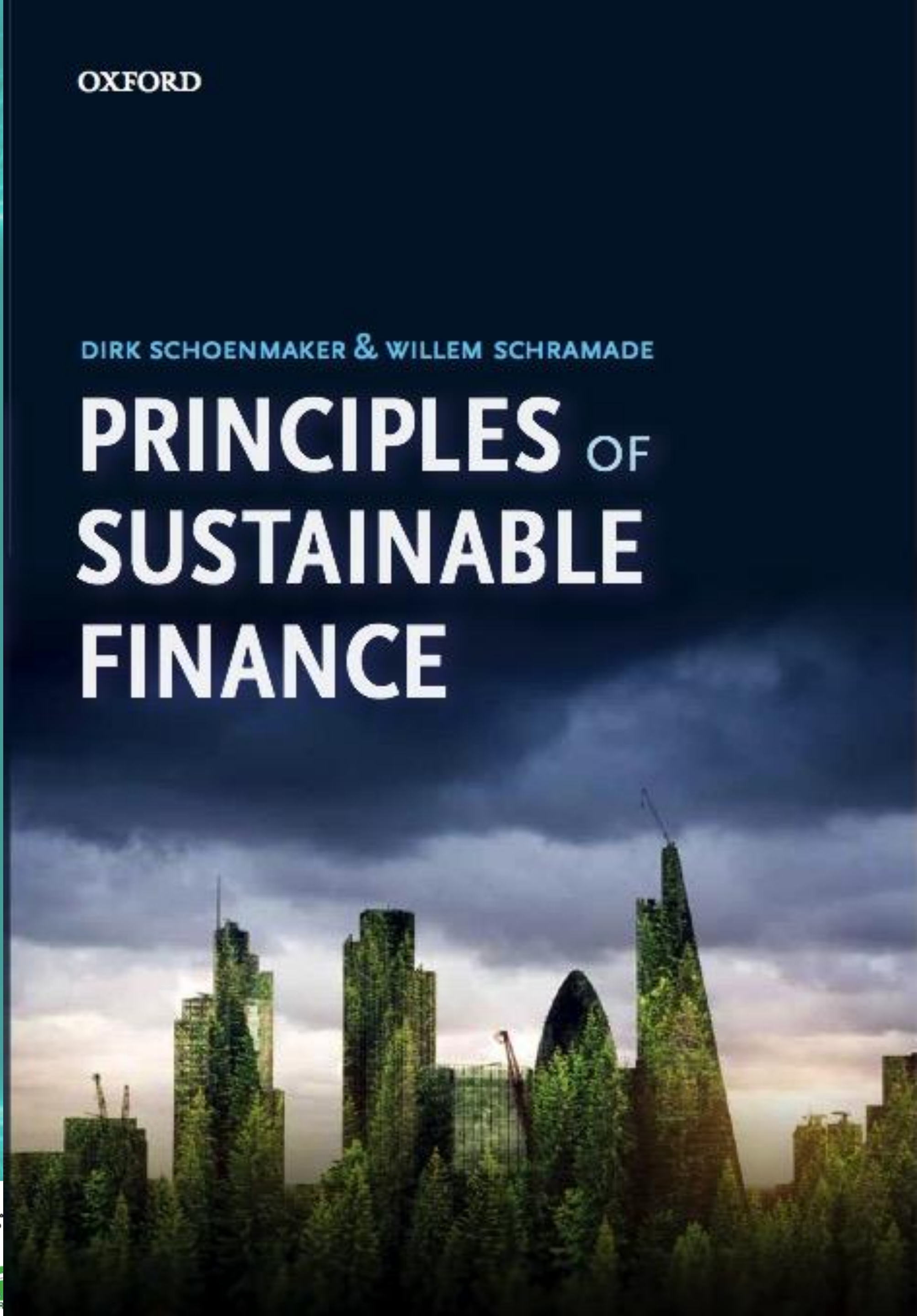
Managing sustainable development



- financial return and risk: **F**
- impact on society: **S**
- impact on environment: **E**

Principles of sustainable finance

Sustainable Finance Typology	Value created	Ranking of factors
Finance-as-usual	Shareholder value	F
Sustainable Finance 1.0	Refined shareholder value	F >> S and E
Sustainable Finance 2.0	Stakeholder value	I = F + S + E
Sustainable Finance 3.0	Common good value	S and E > F



Organisational goal

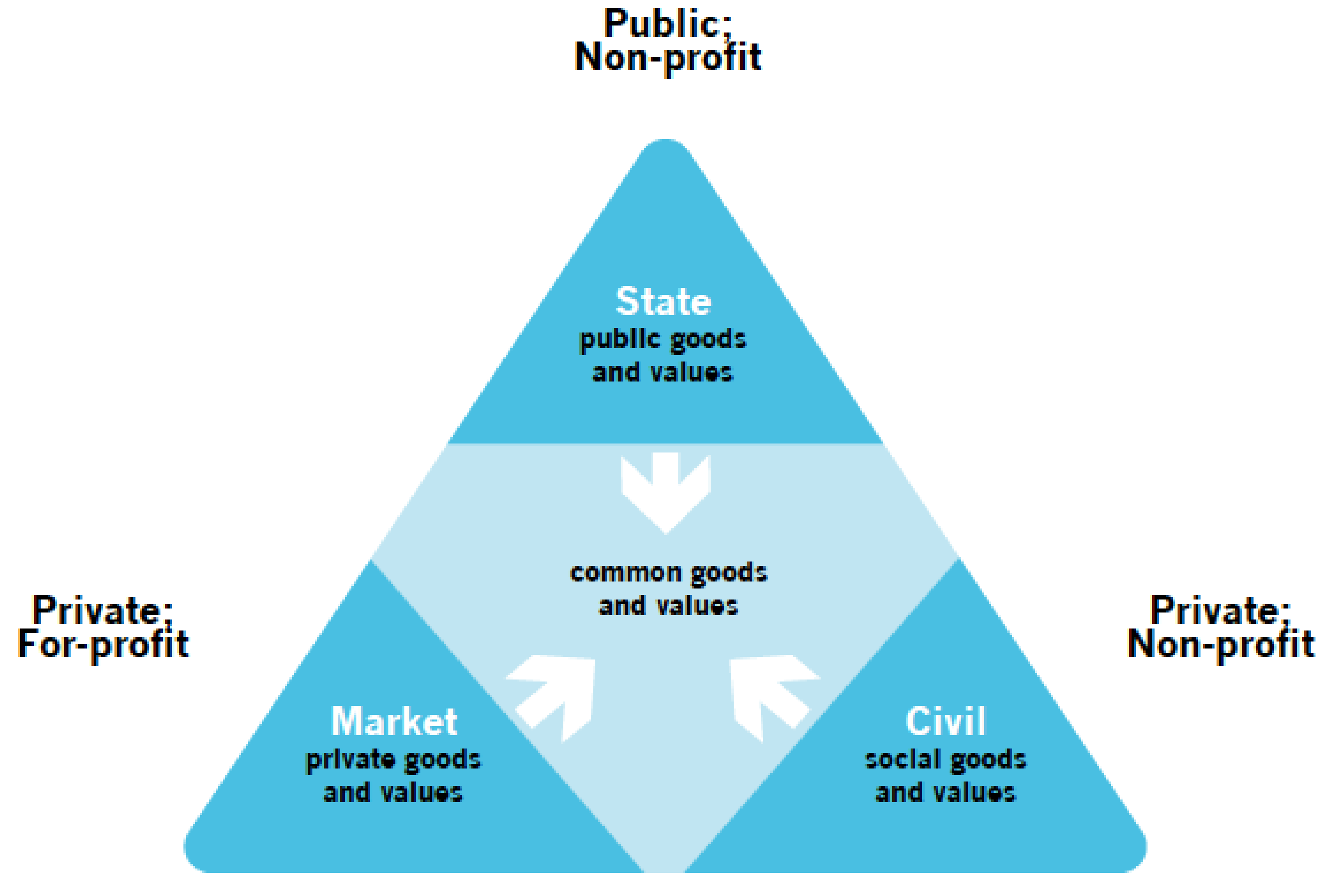
- What is the goal of your organisation?

1. Profit maximisation (F) – owners / shareholders are ‘in charge’

2. Impact generation (S+E) – stakeholders are ‘in charge’

3. Profit and impact (I) – modern companies that behave ‘responsibly’

Who should act to address sustainability challenges?

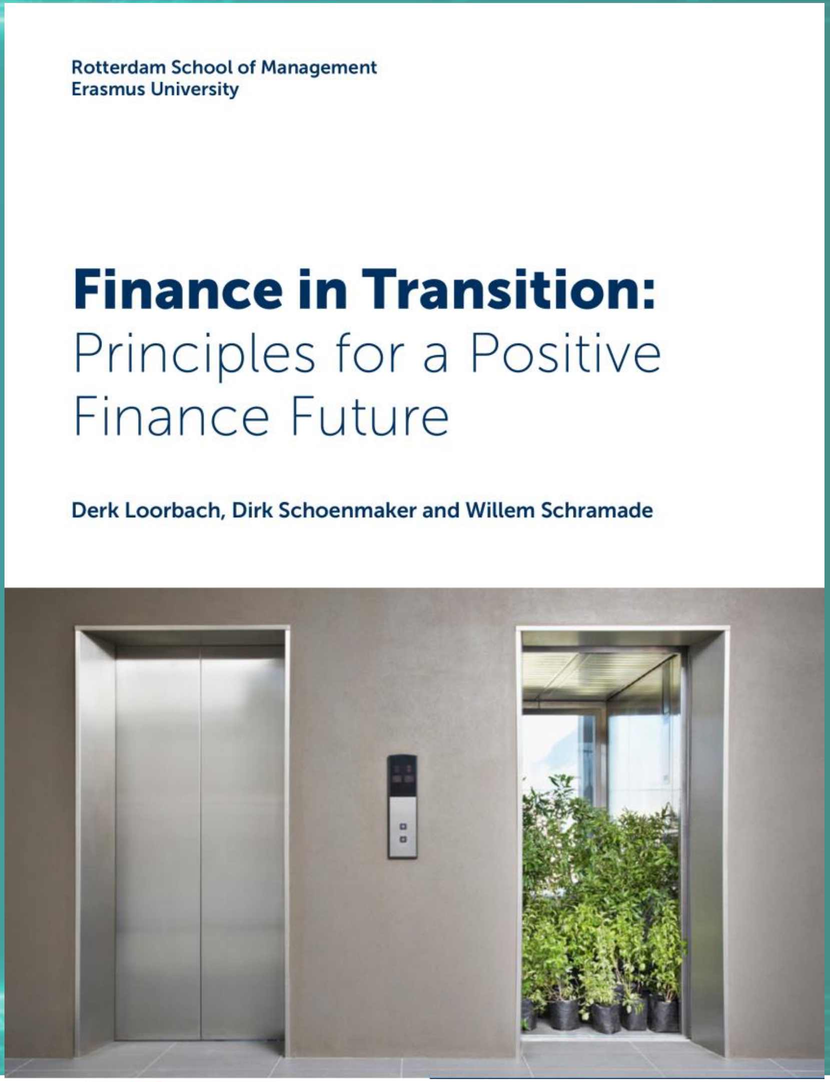


Transition and integrated thinking

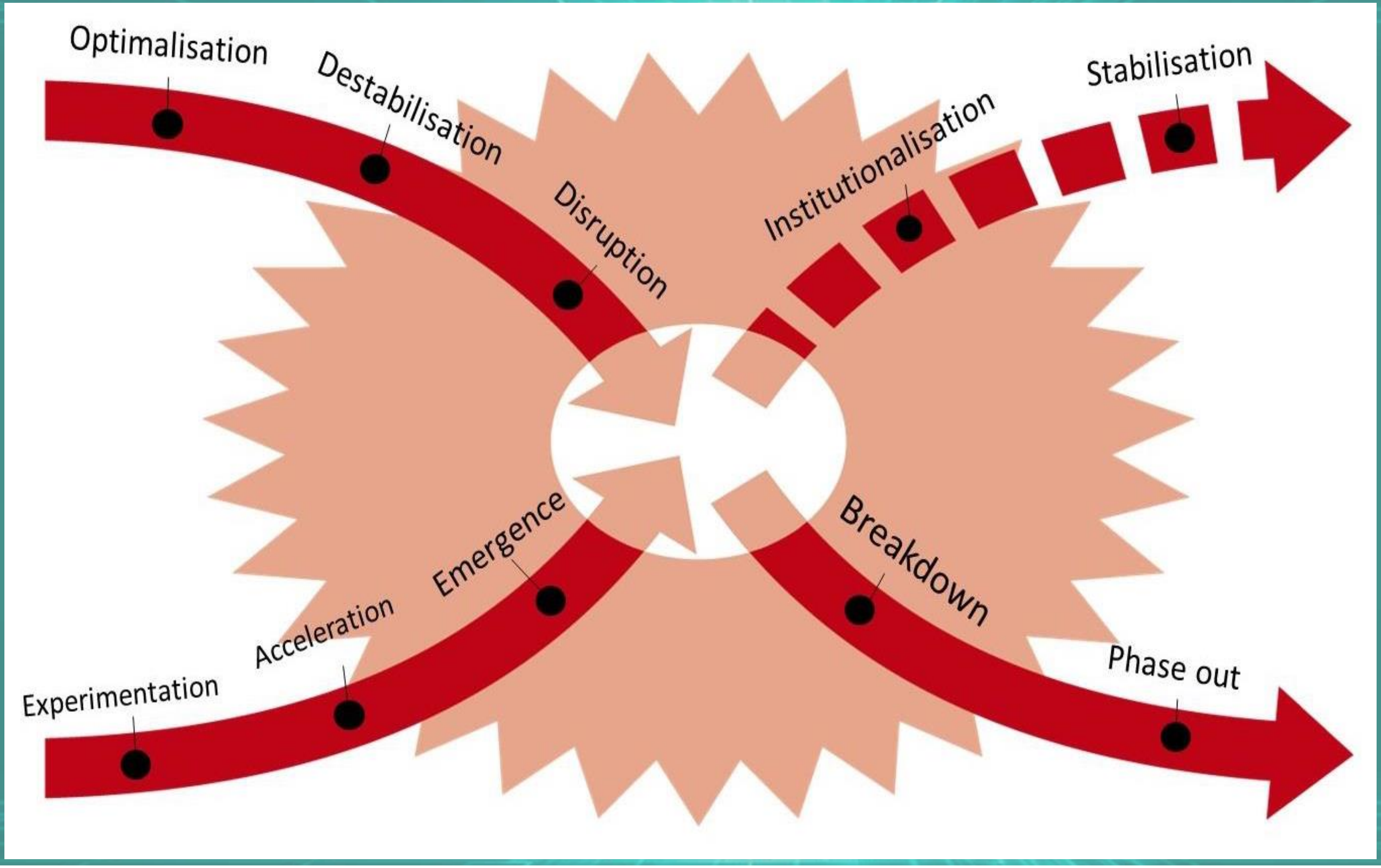
Transition

1. Transition management

2. Vision: From financial value to integrated value creation



The x-curve of transition dynamics



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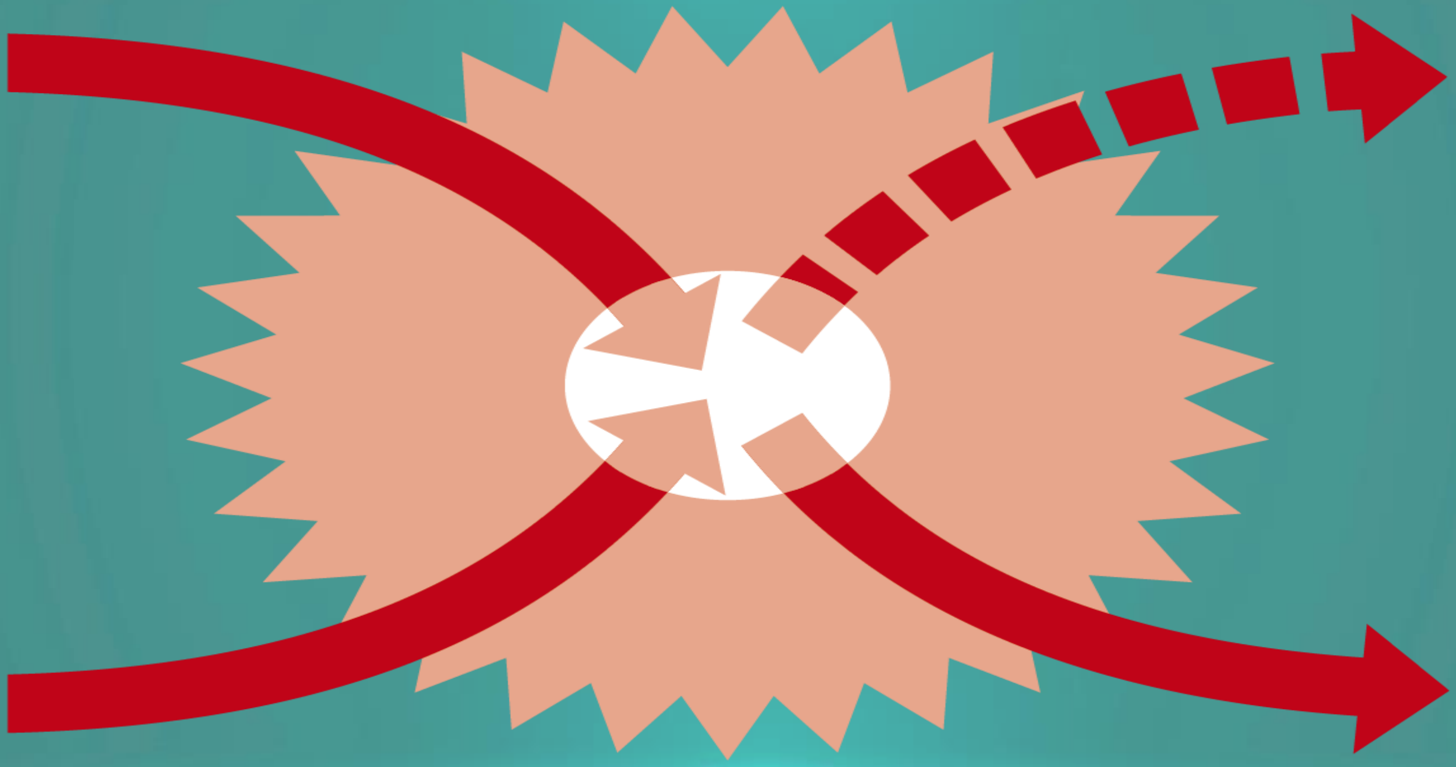
Financial system transition

Financial value paradigm:
risk-return

Integrated value paradigm:
impact



Companies and financial firms managed for long-term value creation

Companies and financial firms managed for financial value creation

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Positive finance: vision for transition

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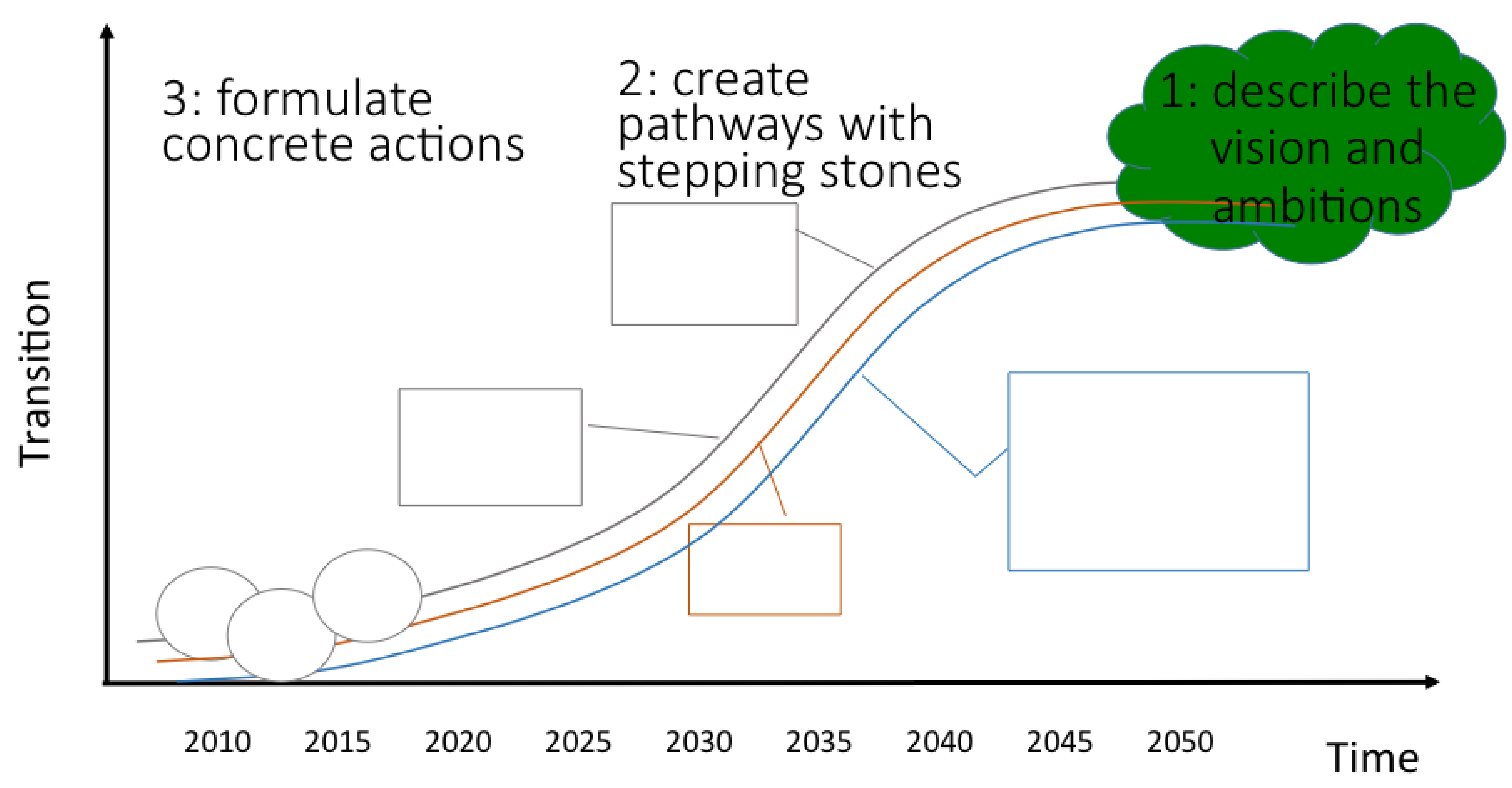
Backcasting



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Guiding principles

From financial to integrated value

- Institution’s measurement, reporting and targeting of integrated returns, rather than purely financial returns
- Embedded in a serious statement of purpose of what the institution’s value creation looks like and who it will benefit (linked to sustainability transition; SDGs).
- Effective systems are needed for transmitting information on ecological and social capital to and from corporates, citizens and governments.
- New mental models and new business school programmes will be based on integrated value creation;

Stewardship based on a direct link between financiers and companies

- For banks, it will again include a stronger role for relationship banking.
- For asset managers and asset owners, it will likely include more concentrated ownership stakes, deeper engagement, and shorter investment chains.
- This second guiding principle enables a direct dialogue between financiers and companies on targeting integrated value (aligned with the SDGs) without intermediary actors;

Capital allocation based on long-term societal value

- Quantified and accountable positive impact on ecological and social capital is obtained by financing sustainability transitions.
- The emerging nature positive economy will be based on completely different financial logics of a circular, non-extractive and service and sharing based economy.
- The market transitions in food, energy, production, mobility and so on need to be financed as well as they require a financial transition strategy.

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Tools for sustainable finance

1. Lending
   - ➢ Positive impact – sustainable lending with lower risk premium -> interest rate
   - ➢ Negative impact – no lending or lending with higher risk premium -> interest rate

2. Investing
   - ➢ Traditional investing - investing with minimum ESG criteria (not much is changing)
   - ➢ Impact investing – aiming for impact (next presentation)

- Very important for LT societal allocation:

➢ Building up - financing positive impact

➢ Phasing out - financing 'old economy'

New integrated value paradigm

From traditional to transition finance

	Traditional finance	ESG	Transition finance
Long-term vision	Business as usual	Need to reduce emissions	Change to stay within social and planetary boundaries
Route	Business as usual	Gradual change: ratings, regulation and technology will save us	Disruptive transitions: emerging niches & phase out of unsustainable activities
Goal function	Financial value	Financial value	Integrated value
Definition of risk	Measures of historical volatility	Measures of historical volatility	Ecological risks represent system risks not captured in current models

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Conclusions

1. Set your goal and build your organisation (strategy & business model) on that

2. Do the new things, but also stop the old things

3. Partnerships are powerful and needed for real progress

Thank you for your attention

Questions?

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