EXECUTIVE SUMMARY

LUXEMBOURG SUSTAINABLE FINANCE ROADMAP

A JOURNEY TOWARDS A SUSTAINABLE FINANCIAL SYSTEM

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United Nations Environment Programme - Finance Initiative
www.unepfi.org
United Nations Environment Programme – Finance Initiative is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today’s environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them.

Innpact
www.innpact.com
Innpact leverages more than 10 years of experience in enabling impact investing play an active role in the achievement of the Sustainable Development Goals. It has an unrivalled expertise in designing and structuring impact investment funds and blended finance vehicles. Innpact supports promoters and fund managers for impact investment projects totaling more than USD 5 billion. With its team of 30 experienced impact professionals, it serves a wide range of clients from development finance institutions to foundations, banks, NGOs, institutional investors and fund managers from all over the world.

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Sustainable finance as a new paradigm considers environmental, social and governance issues that traditionally have not been included in financial and economic parameters. The new international consensus is that making profits is compatible with sustainable growth of our economies, an inclusive society and the protection of our ecosystem. In the context of challenges such as climate change, there is also an appreciation that change is urgently needed.

By leveraging its strengths as an international financial centre, Luxembourg can make an outsize impact on the development of sustainable finance worldwide. Thanks to its specific culture and areas of expertise, Luxembourg can be a frontrunner in pushing for the most advanced solutions, experimenting and implementing new approaches to ensure that sustainable finance products are easy to access, expertly managed, serving a purpose and credible. This Roadmap sets out the steps needed to achieve this goal.

Macrotrends at the global level

In 2015, several epochal events marked a turning point in the debate on sustainable development: the UN 2030 Agenda for Sustainable Development, including its 17 Sustainable Development Goals, the Paris Agreement on Climate Change and the UN conference in Addis Ababa on Financing for Development.

These important achievements stem from a new level of awareness about the need to promote radical changes in our institutional, economic and financial models. While public and private actors are engaged in a vast process of redefining basic paradigms, the wider financial system is reflecting on its core purpose, which is to ensure that resources flow to support the long-term needs of balanced and sustained growth. This is happening alongside growing institutional demand for ESG products and retail clients more actively questioning the environmental and social effects of their investment choices.

In this context, policy interventions at the national and international levels have been particularly prevalent over the past five years. Internationally, the most ambitious programme is the EU Action Plan on Financing Sustainable Growth (European Commission [EC] 2018).1

The EU Action Plan is built on three pillars to:

- reorient capital flows towards sustainable investment
- mainstream sustainability into risk management
- foster transparency and long-termism.

Luxembourg can build on its position to drive sustainable finance

These drivers present an unprecedented opportunity for Luxembourg as one of the wealthiest countries in the world and a successful financial centre serving the European and global economy.

Luxembourg enjoys a close and mutually beneficial working relationship between public and private actors, offers a legal and regulatory framework tailored to serving international financial actors and investors, along with excellent recognition and distribution channels for its investment funds across the globe.

These factors have attracted international banks, asset managers, fund promoters, insurance companies, pension funds, sovereign wealth funds and other financial service providers from around the world, turning Luxembourg into a leading hub and gateway for international finance.

Through its involvement in a number of initiatives at international and EU level, Luxembourg has the potential to forcefully drive the agenda for sustainable development.

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1 eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN
Three recent initiatives illustrate Luxembourg’s pioneering role in using finance to meet sustainability ambitions. It has developed a climate finance strategy to help leverage international public and private sector investments. The Luxembourg Green Exchange is the first platform exclusively dedicated to sustainable securities, listing almost half of the world’s green bond volume and an estimated third of sustainability and social bonds. The Forestry and Climate Change Fund has a €7.5 million first-loss tranche guaranteed by the Climate and Energy Fund as well as a €5 million investment by the Ministry of Finance. And in July 2018, Luxembourg established a legal framework for green covered bonds – the first of its kind globally.

Building on its strengths and expertise, Luxembourg can be a test market, a standard setter and a multiplier on an international scale. Its multi-stakeholder approach allows market forces to innovate and develop their potential and it has proven strong expertise in investment funds, blended finance vehicles, bonds and sustainable labels.

**Priorities for making a successful transition to a sustainable economy and society**

In the near future, our economy and society will experience a profound transformation. It is not just how we produce goods and services, but also how value is created and distributed. Finance has a key role to play, channelling the trillions of dollars of annual investments needed to achieve the SDGs and the Paris Agreement commitments. There are two key priorities for a successful transition to this future: the need for collective action and the need for a phased approach.

Coherent, consistent actions must be taken at the same time, by both the public and private sectors. The public sector has to set a clear vision and create consensus around it, while providing a stable regulatory framework that supports experimentation. It is for private actors to identify market needs, develop innovative ideas and grow tested models.

Alongside collective action, the need for a phased approach is key. The concept of a roadmap encapsulates the need for gradual change with that of definite objectives: the shift must be planned to allow the system time to adapt without shocks. A phased approach must be adopted to address potential reduced competitiveness over the short term, but also create beneficial ripple effects over the long term.

**Conclusion**

The EU Action Plan has three high-level aims: reorienting capital flows, managing financial risks linked to climate and other ESG topics, and fostering transparency and long termism.

Luxembourg can be a frontrunner in pushing for the most advanced solutions, experimenting with and implementing new approaches to ensure that sustainable finance products are:

- **easy to access**: investors should be able to find a complete and transparent offer of sustainable investment opportunities
- **expertly managed**: asset managers should be supported in setting up, managing and distributing their sustainable products
- **serving a purpose**: sustainable enterprises should be supported in accessing long-term funding
- **credible**: the impact of sustainable financial products should be evaluated in order to create clarity and confidence, and avoid greenwashing.

The key recommendations on the following pages have been identified throughout the different working groups and interview sessions, grounded in the spirit of a collective effort. They range from the need to formalize a strategy and set up a coordinating entity to promoting innovation, developing expertise, ensuring proof of concept and measuring progress.

Following this Roadmap will allow Luxembourg to take advantage of its specific culture and areas of expertise and make a meaningful contribution to the financing of sustainable development.
# Summary of main recommendations

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<th>AMBITION</th>
<th>RECOMMENDATIONS</th>
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| Formalize and communicate an ambitious, tailor-made and clear sustainable finance strategy | ● Formalize an ambitious, coherent, consistent and transparent Sustainable Finance Strategy, reflecting the distinctive features and added value of Luxembourg  
● Ensure endorsement by all stakeholders involved as well as transparent communication  
● Set up a Sustainable Finance Initiative as a coordinating entity, in the form of a public-private partnership, as well as sector and/or theme-specific task forces with defined roles and responsibilities  
● Develop a toolkit for sustainable investment funds and other financial products by combining existing tools and tailoring them to sustainable finance  
● Increase the offer of liquid products, such as sustainable UCITS, listed green and sustainable bonds, savings accounts and insurance products  
● Analyse how Luxembourg can leverage its framework and expertise in blended finance to better connect investors and investees to mobilize finance for sustainable development |
| Leverage financial sector expertise                                     | ● Organize regular events, conferences and meeting points on sustainable finance to raise awareness and showcase sustainable finance initiatives and products  
● Integrate sustainability into national branding, in order to promote it across the whole ecosystem: sustainable development is a creator of social cohesion, an economic opportunity and a differentiating factor  
● Integrate financial literacy and sustainable finance into school curricula and tertiary education  
● Integrate sustainable finance into all financial sector training  
● Consider criteria for ESG fitness assessment of Board members  
● Forge close links between incubators, schools and research centres to attract talent and build human capital  
● Promote innovation at the service of the SDGs and explore better leveraging of financial technology to achieve sustainable objectives |
| Raise awareness and integrate sustainability into education and professional training |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
### Develop expertise and best practice
- Promote research programmes on blended finance to finance sustainable development
- Set up Master and PhD programmes in sustainable finance, such as asset management and impact management and measurement
- Build, strengthen and extend existing expertise in assessing and measuring social and environmental impact investments
- Develop effective reporting systems and guidelines for ESG reporting

### Analyse and redesign the system of incentives and taxation
- Redesign investment incentives to promote long-term investments at the level of product developers, investors and investees
- Analyse how direct tax incentives could be linked to sustainable finance activities and business models
- Analyse whether the scope of reduced indirect taxes should be broadened for sustainable companies and business models

### Lead by example and ensure proof of concept
- Screen public investments for their ESG soundness and carbon footprint
- Develop and communicate clear guidelines for sovereign funds and public pensions
- Use the influencing power of public funds through active shareholder engagement
- Leverage public funding to ensure proof of concept (for example, through creating a social and environmental impact fund) and seed-fund these initiatives

### Measure progress
- Participate in the elaboration of best practice and indicators with initiatives such as the International Network of Financial Centres for Sustainability
- Identify stakeholders to ensure the definition and implementation of a controlling framework
- Organize data collection, measure and communicate on progress over time
- Take corrective actions if necessary
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Ministry of Finance
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Ministry of Sustainable Development and Infrastructure
Department for the Environment
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OF THE GRAND-DUCHY OF LUXEMBOURG
Ministry of Finance

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Ministère du Développement durable et des Infrastructures
Département de l’environnement