



Sustainable Finance: Investing in a better future



By Manju Seal, Head of Sustainable Finance, BMO Financial Group & Capital Markets ESG Lead

Our planet faces a number of major challenges, such as world hunger and financial inclusion. It can't just be up to individuals and non-profits to help make change. Financial institutions have a role to play, too. If we can convene and catalyze capital with companies and causes, it will help many of these issues get solved. This piece is the first in a three-part series on sustainable finance.

When most people hear the term sustainable finance, they think of socially responsible investing (SRI) and the growing list of companies that take environmental, social and governance (ESG) criteria into account. While SRI is expanding – U.S.-domiciled assets under management (AUM) using SRI strategies hit \$12 trillion at the start of 2018 (Fig. 1), up 38% since 2016 – and more companies are considering ESG factors, sustainable finance is about more than buying stocks and green bonds.

Over the next decade, several global issues will come to a head, including water scarcity, income inequality, climate change, food shortages and other social or planet-altering problems. It's been easy for people to ignore some of these things, but it won't be long before we must find solutions. While the onus is often on individuals to donate money to causes, industry, and especially the financial sector – including banks, capital markets and institutional investors – also have an important role to play.

More than just SRI

Sustainable finance is when all parts of the financial industry come together to convene and catalyze capital to solve big problems. While the definition includes investors buying ESG investments, it also refers to the

development of new investment products, bringing companies to public markets, financing new projects and so on. It's the buy side, the sell side and everything in between.

Helping solve the world's many problems is certainly a feel-good endeavour, but it presents a significant economic opportunity. According to the United Nations, about USD\$1.4 trillion annually will be needed to end extreme poverty, while climate action can offer economic gains of USD\$26 trillion by 2030*. About USD\$7 trillion annually will be required to tackle the UN's [Sustainable Development Goals](#) (SDGs), which are 17 goals, such as improving gender equality and education, that organizations can use to help them decide where to invest first.

Growth of ESG Incorporation by Money Managers 2005 - 2018

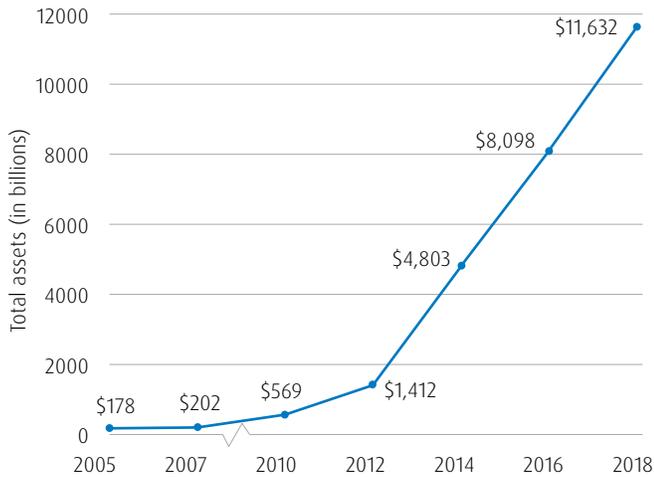


Figure 1: [US SIF Foundation's 2018 Report on US Sustainable, Responsible and Impact Investing Trends](#).

Collaboration is critical

Clearly, there's an opportunity here, but how to take advantage of that opportunity may be less obvious. For sustainable finance to work, people need to think holistically. It's called systems thinking, where the whole is greater than the sum of its parts. In other words, one group can't solve these issues by themselves. Rather, experts across multiple disciplines need to come together to work on the best solutions for these problems. For instance, if someone wants to create a financial product to help fund water projects, it would help to have scientists, policy-makers and economists, along with product developers and financial experts, to determine the best approach.

View of the SDG system: Interlinked Goals

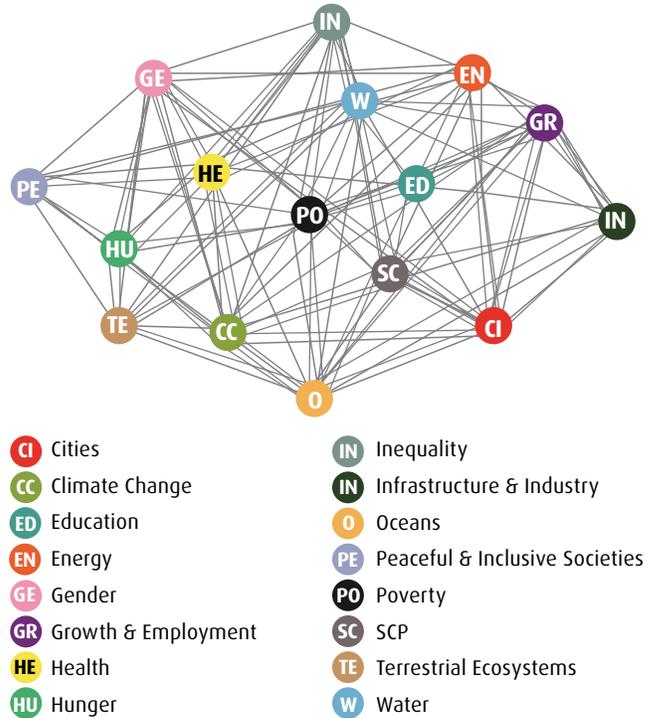


Figure 2: [UN 2015 Global Sustainable Development Report](#)

Systems thinking also requires individuals and groups to see these problems as interconnected issues (Fig. 2). For example, there's no single thing that will end poverty. It's linked to many other problems, such as income inequality, access to clean water, food scarcity, affordable housing and so on. China's water shortage has a lot to do with pollution and over-use. World hunger involves agriculture, climate change and access to land. The more people we can engage in this process, and the more we acknowledge these connections, the more effective products and solutions we'll be able to develop.

Go beyond the green bond

As for those products and services, the financial industry must continue thinking more broadly about what it can provide. A decade ago, the World Bank introduced its first green bond, and while there are roughly \$500 billion of green bonds outstanding, they represent less than 1% of the bond market.

The green bond market will continue to grow – a Global Green Bond Partnership was launched in September 2018 to accelerate the issuance of green bonds – but more needs to be done. The industry is at a nascent point in developing a robust suite of products aimed at solving these global problems.

Determine your goals

So, where can companies start? Begin by looking at the UN's [17 Sustainable Development Goals](#). It covers many of the biggest issues and outlines how these goals are related to one another. Figure out which goals resonates most with your organization and then think about how you can do your part.

An institutional investor, for instance, may decide to invest in an agriculture startup that's found a new way to grow food; an investment firm may want to create a mutual fund that focuses on water infrastructure; a capital markets group might focus on bringing clean energy companies to market. Then bring those scientists, engineers and economists to the table to help talk through your solutions.

Sustainable finance may still be a foreign concept to many, but it won't be long before everyone's talking about it. Through collaboration and innovation financial firms can help make the world a better place – and generate strong returns in the process.

Manju Seal is Head of Sustainable Finance, a new group that works with corporate and institutional clients to incorporate environmental, social and governance criteria into their investment considerations. She leads efforts at BMO for identifying impactful solutions around green/social bond underwriting, product development and other sustainable financing activities.



[BMO Financial Group 2018 Environmental, Social and Governance Report and Public Accountability Statement](#) now available online.

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“ Sustainable finance is more than socially responsible investing. It's about bringing disparate groups together to solve big problems and develop new areas and products for investment. ”



[*2018 New Climate Economy Report](#)

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