The Finance Function…In a Changing World

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Theme: "Reviewing the Fundamentals of Public **Finance in a Changing World**,"

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What's changed?

We are in the midst of a global biodiversity and climate crisis. If we are to overcome these challenges the financial sector will need to play a central role in their resolution.

- Disaster Management
- Climate resilience
- Resilient infrastructure
  - Engineering solutions
  - Architectural solutions
  - Behavioral solutions
- Technology is advancing faster than some of us are…
- Data is being `gathered somewhere in the cloud… so what?
- The world is a much smaller place

Who Cares, Wins.

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- In 2004 a document, titled "Who Cares Wins: Connecting Financial Markets to a Changing World," was a report developed by 20 financial institutions under the invitation of United Nations Secretary-General Kofi Annan.
- It provides recommendations for **integrating environmental, social, and governance (ESG)** factors into financial analysis, asset management, and securities brokerage. The initiative is supported by the U.N. Global Compact and funded by the Swiss Government.
- Have we stopped caring?
  - What happened to the triple bottom line?
  - Are we really investing in the future?

Source: United Nations Department of Public Information, 2004

Recommendations to embed ESG

Systematic Integration of ESG Factors:

- Commit to integrating environmental, social, and governance (ESG) factors into research and investment processes.
- Support analysts with training, resources, and tools to prioritize ESG issues based on their financial impact and sector-specific relevance.

Expand Scope:

- Build on existing ESG awareness in exposed industries and expand analysis to other industries and asset classes, including fixed-income, private equity, and real estate investments.
- Adapt ESG criteria and methodologies to emerging markets.

Develop Analytical Models:

- Advance valuation methodologies to better incorporate qualitative information and uncertain impacts related to ESG issues, using techniques like scenario models and options pricing.

Organizational Change:

- Define long-term goals and implement organizational learning and change processes to integrate ESG factors.
- Adapt performance measurement and incentive systems to reward ESG research and integration.

Leadership Commitment:

- Ensure strong leadership and commitment from senior management and Board members to support ESG integration.

Collaborative Efforts:

- Engage in dialogue with stakeholders, including investors, regulators, stock exchanges, and NGOs, to improve ESG integration and reporting standards.

Source: United Nations Department of Public Information, 2004

Overall Goals

- Strengthen financial markets.
- Contribute to sustainable development.
- Improve trust and mutual understanding among stakeholders.

The report underscores the importance of ESG factors in creating long-term shareholder value, managing risks, and enhancing corporate reputation, while advocating for collective action across the financial sector.

Source: United Nations Department of Public Information, 2004

A new field...

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In 2020 the move towards sustainability has increased, yet there remains a shortfall on clear and consistent environmental, social and governance (ESG) data. This shortfall has hindered the realignment of markets towards true sustainable development.
Fortunately, the emergence of a new field, 'Spatial Finance' offers hope of a potential solution by moving ESG away from dependence on voluntary company reporting, assessing companies at their word, to assessing companies by their actions, using a geospatial approach.

Source: Spatial Finance: Challenges and Opportunities in a Changing World" EFI Insight-Finance. Washington, DC: World Bank and World Wide Fund for Nature (WWF).

Spatial Finance

- Significant potential to provide greater factual insights on the climate, environmental and social impact and risks of companies.
- A new taxonomy for the field, showing how asset data can be assessed against observational data at multiple scales. From sub-asset measurements (Tier 4), i.e. smart power meters, air pollution monitors, to summed data at a national level (Tier 0) for sovereign debt insights.
- Already a range of partial spatial finance tools is commercially available, with most major ESG providers and business intelligence providers developing capabilities within the space.
- Spatial finance offers a novel opportunity to increase the transparency and accountability around the impact of a company's operations.

Source: Spatial Finance: Challenges and Opportunities in a Changing World" EFI Insight-Finance. Washington, DC: World Bank and WWF.

Smart Cities

Inclusive interpretations of the terms “smart” and “city”

- Smart: is generally associated with a range of technological and digital concepts and interventions, especially ICT. 5IR? Where are we?
- However, in addition to this technology-intensive interpretation, smart could also mean “intelligent”, or “knowledge-intensive”.
- The understanding of the term “technology” could be expanded to also include innovative approaches, techniques and processes, as well as non-conventional interventions and scientific innovation.   City
- City: Cities, towns and villages of any size, including those in rural locations.

Source: DCOG 2021 Smart Cities Framework

Smart Cities & Finance

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Key areas of investment

- Infrastructure and technology: Financing is needed for upgrading ICT systems, smart grids, and other traditional and modern infrastructure.
- Human capital: Funding is essential for digital upskilling and training city staff and citizens, especially those from marginalized communities.
- Basic services: While focusing on technology, finance must also ensure that investments improve access to fundamental services like water, electricity, and transport for all citizens.

How strategic are you???

The role of Finance

- Finance is one of the fundamental tools that has underpinned and shaped global civilisation, alongside agriculture and writing systems.
- During the past 5,000 years finance has adapted and innovated to scale civilisation by
  - funding industrial development,
  - technological advancement, and
  - human progress generally.
- The future of finance must adapt to support new societal needs, focusing on:
  - Solving global problems exacerbated by negative externalities, such as climate change and migration.
  - Reducing poverty while maintaining wealth among the rich, promoting inclusion.
  - Financing scientific and technological breakthroughs essential for a new civilization.

What do Finance Officers need to do?

- To thrive in a competitive and global marketplace, you need exceptional financial forecasting processes and a finance team capable of orchestrating them.
- Financial forecasting is a key part of business planning, using past performance and current conditions or trends to predict what is going to happen in the future.
- It helps organizations adapt to uncertainty based on predicted demand for products or services.
- When financial forecasting is executed well, organizations can withstand economic disruptions, adapt to revenue and expense fluctuations, and change course when challenges or opportunities arise. Poor forecasting, on the other hand, can sabotage your business.

9 Ways to plan for a changing world...

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1. **Define your Terms**
   - **Forecast vs. plan.** A plan refers to an annual forecast prepared for the upcoming fiscal or calendar year. The term “forecast” is usually reserved for periodic exercises to adjust your plan to reflect actual performance.
   - **Forecast vs. budget.** A budget is a plan for how you’re going to spend specific amounts of money. While this is a vital piece of any forecast, it is just one piece of the puzzle. A complete forecast should also include projected revenue, assets, liabilities, and cash flow. Truly strategic planners will even take operational key performance indicators (KPIs) into account.
2. **Model Your Revenue**
   - Before you can build a comprehensive financial forecast, you need to build an accurate business model. One way to do that is by modeling revenue.
3. **Model Your Expenses**
   - Personnel, OPEX, fixed and variable costs
4. **Set Your Cadence**
   - Once you’ve built your model, it’s important to define a cadence and a calendar. Financial forecasting is not a one-off exercise, but rather a practice to develop and refine over time.

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5. **Forecast What Matters**
    - "Getting to cash"—and having an understanding of how your operations will impact your future cash position—is essential for smaller organizations without significant reserves
6. **Define Your Reporting Process**
7. **Drive Collaboration**
    - You've automated your reporting. You've established a regular cadence. And you've amazed your stakeholders with the insights you've shared. But if you're still the gatekeeper of information, you may be missing out on a tremendous opportunity. When stakeholders are not directly involved in the planning process, they don't feel a sense of ownership.
    - When data is accessible through self-service financial forecasting tools, people will be more likely to adopt a proactive approach to gathering critical finance data, and they'll come to embrace your plan as their own.

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8. Pick Your Financial Forecasting Tools

- To help you take these steps, you'll need the right financial forecasting tools. While Excel is where most finance teams get started, it's not built for scale. As organizations grow and data sources multiply, organizations must turn to a cloud finance solution that can:
  - **Facilitate collaboration.** Get everyone in your organization involved in the planning process by giving them access to real-time data so that business partners can take ownership of their numbers.
  - **Enable multiple-scenario planning.** Combine high-level, top-down growth- and margin-based models with detailed, bottom-up personnel rosters and schedules in a single platform so you can quickly reconcile differences and address gaps.
  - **Provide a single source of truth.** With a core set of operational and financial data that's common across the company, you can align the organization and track your performance.
  - **Automate reporting.** With centralized reporting and automated data integration, you can eliminate the need to hunt for and manually aggregate data. That frees you to focus on analysis while providing stakeholders with the information they need to make better, faster decisions

9 Ways to plan for a changing world...

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9. **Learn More**
   - Financial forecasting comes down to answering a few key questions. How well can you understand your company's position in the context of the economic environment? How much insight can you get into what's driving opportunity and risk? And perhaps most important of all, how ably can you communicate these insights to decision-makers throughout your organization?

Your Importance and Challenges

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- Driving urban development: Finance enables the modernization and reinvestment needed for cities to become safer, more resilient, and competitive.
- Attracting investment: A clear financial framework helps attract private investment into smart city projects.
- Overcoming reluctance: Initial reluctance by cities to fund "first mover" innovations can be a barrier, making financial planning and support crucial to overcome delays.
- Ensuring sustainability: Finance is key to moving beyond initial project funding to create long-term, sustainable, and adaptable urban environments.

Conclusion

- Redefine your role
- Redefine your self
- Redefine your work
- Use data and technology
- Make an impact
- Be honest
- Be up front
- Be brave
- Drive value and ensure impact

Thank You!

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