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Making the UN Goals an investment case

Investors do take the UN Sustainability Goals into consideration. But, the investments often benefit the transnational co-operations more than the companies and people that the SDGs are made for. New financing models are therefore urgently needed.

Sustainable business models could create a market capitalization of $12 trillion and create 380 million new jobs by 2030 – that is what the Business and Sustainable Development Commission (BSDC) has forecasted. This two-year multi-stakeholder initiative has studied how relevant the 2015 UN Sustainability Goals are for the respective activities of companies and investors.

Neglecting these Sustainable Development Goals (SDGs) may cause enormous macro-financial risks. Especially violent conflicts, the loss of biodiversity, smoking and obesity as well as other social problems may reduce the economic growth by one fifth. This is what BSDC is warning of in the study 'Better Business, Better World' (see table).

Millions of new jobs and billions of market value is possible

The „Blended Finance Taskforce" that emerged from the 2017 initiative aims to mobilize private capital investment in SDGs, especially in sustainable infrastructure. The market could double next year to $50 trillion in mixed funding on a global level.

Therefore, in Q1 2018, the taskforce published the report „Better Finance, Better World" and asked for comments during a consultation phase. The final report will be released any of these days.

A blended finance fund to finance concrete development projects is, for example, the Emerging Africa Infrastructure Fund (EAIF), administered by Investec Asset Management. The fund exists since 2002 and has invested $1.3 billion since.
In addition, $10.9 billion worth of private capital has been invested in more than 70 projects in 22 countries south of Sahara.

Private capital for development goals

Since 2016, the EAIF portfolio is also aimed at the UN Sustainable Development Goals (SDG). The projects need to have direct and quantifiable positive impact on the continent. In April, Allianz joined the fund as the first private institutional investor. Instead of equity, according to Allianz, the company extended a credit of $115 million over 12 years.
More and more institutional investors and suppliers of financial products use the UN SDGs as a point of orientation. See:

» Schwerpunkt Oktober-Ausgabe 2017).

Global burdens

Estimated annual economic impact of global burdens as a share of the global GDP

Violence and Conflicts	9,1 %
Loss of Biodiversity	3,1 %
Smoking	2,8 %
Obesity	2,7 %
Corruption	2,0 %
Alcoholism	1,9 %
Illiteracy	1,8 %
Antimicrobic Resistance	1,6 %
Traffic Overload	1,6 %
Illicit Financial Flows	1,4 %
Food Waste	1,4 %
Climate Change	1,3 %

In November 2017, according to their own statement, the British HSBC released the world's first bond for Sustainable Development. With a size of $1 billion, the bond should 'support projects with a broad social, economic and environmental benefit for seven selected SDGs.' That may be hospitals, schools, renewables or public railways. The bond with a maturity of 2023 was three times oversubscribed.

In April, the German fund company DWS started their own attempt: ‚Our new SDG rating system improves our capacities to assess issuers of bonds and stocks by their contribution to the world's sustainable development', says Petra Pflaum, Head of Responsible Investments. The data will be usable for €630 billion liquid assets (stocks, bonds, liquid real estate) out of €700 billion in total assets.

Integration started by new rating system

The fund company now systematically integrates the data from the index supplier MSCI, the 'ESG Sustainable Impact Metrics', in their ESG software (ESG = environment, social, governance). ESG covers listed shares and bonds that contribute to one or more of the 17 UN Goals.

Thus DWS identifies ‚to the extent possible those companies that through their products and services contribute to the world reaching the UN sustainability goals.' The rating software conducts broader quality checks, e.g. by filtering states violating human rights, conducting death penalty and corruption. Good governance is another criteria required.

The Frankfurt based company analysed in advance whether stock indices are fit for SDG portfolio integration. To meet this requirement a certain percentage of the turnover has to be generated by adequate products. But: 'Less than half of the basic companies across all analysed indices have a positive impact on sustainability' – that was one of the results of the » Studie „Integrating UN Sustainable Development Goals".

Bonds for the good

Since 2017, the Word Bank issues bonds related to the SDGs, e.g. in December one for private investors in Switzerland, before bonds for Dutch and Italian investors. The Swiss bond is investing in favour of gender equality, health and sustainable infrastructure in 30 companies of the Sustainable Development Goals World MV Index'. The Bank has not made any comments on the amount of the bond.

In January, the World Bank released a ‚Sustainable Development Bond' for SDG 7 of CAD1.2 billion with a focus on gender equality. In February, another SDG related bond $350 million for this and four other SDGs was issued by the World Bank.

Currently, the European Investment Bank (EIB) is preparing capital issuances to help reach the SDGs, said their president Werner Hoyer at a recent EU event, according to media reports.

EIB plans to issue more social bonds by the end of the year.

According to Bloomberg and Credit Agricole, EIB is a leader in supranational green bonds with a market share of 59 per cent and a volume of $5 billion as of January 2018. Nevertheless, the EIB is acting cautiously. *Responsible Investor* is quoting EIB President Werner Hoyer:'If we develop such instruments there have to be a clear set of criteria. Other-wise there won't be the credibility required by the investors.'

That's the crux: investors should not deciding alone on the credibility. Otherwise the capital market will act biased. 'Investors look out for stocks and bonds to creating a positive SDGs impact. But none of the countries that are in need of the SDGs offers stocks and bonds on the markets where investors could buy in.', says Alexander Dill, Director of the Basel Institute of Commons and Economics.

Clear set of indicators needed – Deficit of the market forces

Dill and his colleagues contacted 25 institutional investors from the Abu Dhabi Investment Council to UBS and the Swiss Initiative Sustainable Finance. 'While institutional investors such as AGI and Blackrock couldn't invest even in case they would, we have an entire lack of capitalism', says Dill.

As an example, Dill elucidates, Unilever reclaims not to source from companies using child labour, not to deal with weapons, to producing their own solar energy and to complying with audits of the SDGs, such as e.g. SDG 6 Clean Water. 'But the SDGs are not about to allocating new funds for Unilever, but to help countries with big problems.'

Dill is am member of the UN "Inter-agency Task Force on Financing for Development" (IATF). He's about to launch suggestions on how the financing for poor countries can being improved. Further he shall report on what is going wrong in the SDGs process and contribute to the next SDGs progress report in 2019. Dill is one out of only four IATF members that are not representatives of states and IGO and still published IATF policy papers.

Peace as a business case

‚I'm speaking as a UN stakeholder, not as an internal detractor', Dill underlines. His critics can be found in his reports since two years yet. Recently his policy paper on » „The Impact of Social Capital on Financing Development", one out of five IATF reports on financing development, appeared in the UN IATF website. According to Dill, his critics is still discussed few and didn't lead to political innovations yet.

'We've got to making the SDGs a business case for developing countries and not only misuse them as an audit framework for multinational companies.', Dill demands.

He's not alone with this approach: 'Only business can help Africa', underlines the » Stiftung Manager ohne Grenzen – 'own African business' of course, comparable with the SME entrepreneurship in Europe. 'Without engagement and basic entrepreneurial opportunities Africa will neither create markets nor peace.', Helene Prölß, founder of the foundation explains. The foundation since 2005 according to their own statement realized more than 150 entrepreneurial projects in 40 countries, mostly in Africa.

Different asset allocation required

Alexander Dill of Basel Institute for Commons explains: „In difference to many developing agencies we claim two necessities for the financing of the SDGs. The first is peace as a business model.' That would mean a shift of the allocation of public budgets from military to civil purposes.'

Secondly a shift of capital allocation in countries of poverty and crises, so called Frontier Investment to opening access to the worldwide financial markets for the people and companies. 'Both strategies together will enable to providing the 2 to 3 trillion Dollars by year that are the current estimates on the costs of the SDGs.'

Worldwide Survey

The Basel Institute of Commons and Economics is conducting the World Social Capital Monitor a UN SDG Partnership Project. The worldwide survey on the willingness to co-finance public goods and to support social goods is an open access questionnaire in 40 languages.

It's the aim to giving a better picture of the so called ‚Social Capital' of the respective countries.
There are only eight questions to assessing goods on a scale between ten and one.
They don't give a complete insight but create a high conversion rate and allow to assessing indicators more independent from GDP than in normal statistics.

Dill is invoking to invest in developing countries instead of reaching out development aid to the governments only. OECD-countries as well prefer indicators to increasing their own credibility and wealth. 'But these indicators cannot being applied to countries that can't or are not allowed to increasing their scores'.
(see the right column with links)

Leaving the doom loop

In difference to the OECD-countries developing countries can't influence their GDP through governmental bonds. Therefore they lack of funds to financing public goods such as education, health, climate change protection and social welfare.
But those public goods are measured by the 167 indicators of the SDGs. 'Countries can only pick up foreign debt and get into a doom loop.', Dill explains. Therefore he suggested a ten-billion-Dollar 'Social Capital Fund' within the UN-IATF. The fund should focus on local cooperatives and SME only – and therefore directly accelerate the local economy.

It's hard to find support for this approach. Even 'alternative' banks such as the German GLS Bank and the Bank für Kirche und Caritas (BKC) didn't bought in this concept yet – and so did the Norwegian NBIM, the Abu Dhabi Investment Council and the Swiss National Bank (SNB).

'Currently the investors miss collateral and attend a too-high yield on their investment.', Dill reports. GLS Bank is confirming the negotiations but focussed on their own impact concepts. The BKC told, that this concept of sustainability is very attractive, but is still did not mature enough.

Confines for investors

The SDGs are relevant confines not only for states but as well for asset owners and investors. The investors initiative Principles for Responsible Investment is providing arguments and confines.

Therefore PRI in December 2018 together with the UN Initiative Global Compact and the UN Initiative UNEP-FI launched a »„Global Alliance on SDG Finance".
They plan to provide a comprehensive set of solutions in order to attracting bigger private investors on behalf of sustainable development.
Unfortunately the links of the PRI to the „PRI Blueprint & advisory group on the SDGs" do not work and the search function doesn't deliver any result.

Susanne Bergius

Limping comparison of countries

Different measures than GDP change the evaluation and ranking of countries – that's what the comparison of ten country indices within the Global Index Benchmark SDG GDP of Basel Institute of Commons and Economics shows. (Excel file to download)

The valuations differ significantly. E.g. New Zealand is ranked 32 by GDP, 22 in the Bertelsmann SDG-Index, but ranks 2 in the Corruption Perception Index.

The Dutch do not perform in the Happy Planet Index while they are ranked no. 4 in the Human Development Index.
Indonesia can be found around rank 100, but ranks 13 in the World Giving Index .

This a translation of the German article in Handelsblatt:
http://commons.ch/wp-content/uploads/Handelsblatt_Investing_in_the_SDG.pdf