The new era of sustainable development investing

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The new era of sustainable development investing

By Jose Vinals

THE contentious and escalating argument around ESG (environmental, social, and governance) investing presents a golden opportunity: to shift the focus away from the narrow and the technical – disclosures, fiduciary obligations, taxonomies, et cetera – towards a broader vision of what sustainable investing can and should be.

Our world faces multiple interlinked challenges that compound one another's effects, including climate-induced emergencies, food and water scarcity, energy security, global health crises, and macroeconomic challenges. Some may argue that the wind has been taken out of the debate's sails in recent months, but these issues are not theoretical. They are real, with real-world consequences, altering people's daily lives and distorting our futures.

What can be done about it? In 2019, United Nations Secretary-General Antonio Guterres launched the Global Investors for Sustainable Development (GISD) Alliance, bringing together some of the largest institutions across the investment and financial value chain with a clear mandate: how to mobilise capital towards the realisation of the 17 Sustainable Development Goals (SDGs).

The scale of the challenge is sobering. The Covid-19 crisis wiped out four years of progress on poverty eradication, with 150 million more people expected to fall into extreme poverty. Macroeconomic challenges this year will cause many to fall further behind. In 2030, 1.6 billion people will lack safe drinking water and 700 million will have been displaced by drought.

Addressing these realities is not just a moral question; it is a market imperative. How can economies function and reach their full potential amid such threats and market failures?

It is an obvious fact: If societies collapse, so too will markets. We must mobilise trillions of dollars – urgently.

Do commercial opportunities exist? Of course they do. For example, the fastest-growing segment of the fixed-income investing market is sustainability bonds and loans, now standing at more than US$2 trillion in outstanding issuance and potentially growing to between US$5 trillion and US$10 trillion within the next five years, according to one estimate.

In terms of private markets, sector-based investments in developing countries – in areas such as renewable energy, health, financial inclusion, and infrastructure – are proving that investors can realise adequate risk-adjusted returns while contributing to sustainable economic growth.

But to achieve scale, sustainable development investing needs multilateral development banks to enhance and scale up blended finance activities to bolster private finance flows. It needs systemic changes on the part of policymakers, public development banks and multilateral organisations. It needs rigorous standards, reporting and metrics.

To meet the challenges facing us, we must reject the false choice between profits and principles. There is a path forward that can unleash the power of private capital to make our world more sustainable and our lives more equitable.

GISD is working to develop the platforms and policies needed to address these issues. We will soon be launching a sustainable infrastructure investment platform that will act as a blended finance "fund of funds" to facilitate such investment at scale. But we cannot do it alone. We need all stakeholders – including private finance, governments, and multilateral development banks – at the table to chart the path forward for addressing these pressing global issues.

This is not philanthropic investing; nor is it impact investing, which suggests a trade-off between returns and social value. Rather, sustainable development investing seeks to identify investment opportunities that generate returns while delivering net-positive outcomes.

GISD has developed SDG-aligned sector-specific metrics that aim to inculcate greater rigour in sustainability reporting and enable a credible comparison of SDG performance within and across industries. We continue to work with the broader ecosystem of standard setters and data providers to increase adoption and use of these metrics by corporates and investors.

We are also compiling best practices for integrating sustainability considerations into performance incentives. In addition, we are exploring longer-term sustainability-oriented benchmarks which allow investors to align their portfolios with sustainable development, beyond the financially-oriented picture provided by traditional benchmarks.

To meet the challenges facing us, we must reject the false choice between profits and principles. There is a path forward that can unleash the power of private capital to make our world more sustainable and our lives more equitable.

Welcome to the new era of sustainable development investing. Let us seize this opportunity and move forward together – it is more important than ever.

The writer is group chairman of Standard Chartered and co-chair of the UN GISD Alliance.