Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung

"Voluntary Sustainability Standards & the Role of the Government, Perspectives from Emerging Market Economies and Europe - Stakeholder Launch of the 2nd UNFSS Flagship Report": Session 3: "Promoting sustainable and responsible investment through quality standards", 21. Oktober 2016, 14:00Uhr-15:30Uhr

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Need for Sustainable Investments to achieve the SDGs

- The title of the report being launched today is "Meeting Sustainability Goals". We have to remember that those Sustainability Goals – or **SDGs – reflect <u>our</u> ambitions and vision of the world <u>we</u> as a global community want to live in**.
- The Agenda 2030 serves as a point of reference not only for developing countries but also emerging economies and developed countries alike – including Germany. The **Agenda also declares a multi-stakeholder approach** and already was set up with high involvement of non-state actors including businesses, academia and civil society. The goals of the Agenda 2030 **cannot be achieved by governments alone.**
- Strong partnerships that build on our complementary approaches and strengths will be required to achieve joint ambitions. This **will require not only bold action but also substantial resources – including financial resources**. We know that the **current public and private investments are insufficient** to meet the challenges of sustainable development: UNCTAD estimates a 2.5 trillion USD annual shortfall to fund SDG relevant sectors. **Meeting those financing needs, however, is possible** if we manage to shift a larger share of global public and private investments into **sustainable projects and enterprises**.
- Hence it is not only about the **<u>quantity</u>** but also, and importantly, about **the <u>quality</u> of financing**. For public institutions and policy makers the question is how to demonstrate that **investing into the delivery of the SDGs is not only good for karma but also good for the bottom line**. In some instances incentives may be required, e.g. in the form of guarantees or other de-risking instruments to bring down economic or political risks to a manageable level.

- Actually, ample proof is available already: A meta-study recently conducted by the University of Oxford shows how **“Sustainability Can Drive Financial Outperformance”**. According to the study, almost 90% of the more than 200 reviewed sources find that companies with **robust sustainability practices demonstrate better operational performance**. The Oxford report further finds that 80% of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance. That means that **responsibility and profitability are not incompatible – they can be complementary**! This insight is what needs to drive global sustainable financing flows!
- And there is certainly a **trend of more and more private sector organizations internalizing those insights**. They do start to integrate this thinking into their strategies and actions. However, this **trend needs to move much faster** for us to reach the SDGs and the ambitions we have set ourselves.

Role of sustainability standards and German contributions

- A main driver for sustainable and responsible investments is the **integration of sustainability factors into financial decision-making**. We need to further **develop practical tools** that allow investors and banks to take their social and environmental impact into account. This is where the development and implementation of sustainability standards comes in – these standards, particularly as they emerge through multi-stakeholder processes and thus gain depth and acceptance, can – and I am sure will – make an important contribution to reach the SDGs.
- German Development Cooperation supports the development, implementation and adoption of standards for sustainability oriented investments in a number of ways:

Impact Investing

- One example is our **contributions to building an enabling environment for impact investments –** investments with the intention to generate social and environmental impact alongside a financial return.
- According to surveys from the Global Impact Investing Network the market is growing at a high pace: 2015 network members reported more than 77 billion USD in impact investing assets under management up from 60 billion USD the year before. Although still a tiny fraction of total global assets under management, more and more actors are eying or actively adopting impact investment strategies including major names ranging from Deutsche Bank to Blackrock.

- Commonly acknowledged **standards e.g. in terms of impact measurement are key** for the market to become more accessible for new entrants and those already involved track, compare and improve their performance. We have supported standard development through several engagements:
  - On a global level, GDC for example engaged with the Social Impact Investing Taskforce that was established by the British G8 presidency. Our cooperation with the current OECD Impact Investing Initiative is another example. Both initiatives, the taskforce and the OECD initiative, put an **emphasis on developing consistent ways to conduct impact assessments for impact investments**; and both do so by considering and – where appropriate – building on what has already been developed by the private sector.
  - On a national level, for instance in India, GDC has facilitated the **development of the impact assessment tool PRISM**. This tool helps asset managers to track their impact and financial performance and communicate it back to their investors in a harmonized and comparable manner.

Green bonds

- Green bonds are yet another very good example to showcase how standards can act as enablers for new and innovative markets. While in 2013 the global issuance of green bonds was a mere 11 billion USD, total issuance volume of labeled green bonds now stands at over 150 billion USD with more than 60 billion USD alone in 2016 until today.
- Since the issuance of the first green bond in 2007 there was a lot of uncertainty about what makes a bond "green" and this inhibited market development. In early 2014, the **industry agreed on the "Green Bond Principles" that define for what types of investment the proceeds of a green bond can be used for**. Eligible investments include, for example, those in renewable energy, energy efficiency or sustainable water management.
- The **exponential growth of the green bond market over the past 3 years was to a considerable degree facilitated by the green bond principles**. We are now also witnessing an important shift in the market. While most green bonds in the initial years were issued by supranational institutions such as The World Bank or the European Investment Bank, we now see a strong adoption of this instrument by private sector corporations and financial institutions as well as by cities and municipalities. Of course there is no mono-causal relationship here, but it is interesting to see how standards – in

this case **voluntary industry guidelines – can be a game changing element**. In this case the private sector also clearly played the role of an **enabler for public policy**: China and India, the first of our partner countries to adopt a legal framework for green bonds, have built these frameworks on the Green Bond Principles.

- **The German Development Cooperation** is supporting the development of green bond markets in G20 emerging markets. In a **strategic alliance with the Swedish SEB bank**, a pioneer and visionary in the field of green bonds, we are working with public and private sector partners in China, India, Mexico and Brazil to create the enabling environment, to build the capacity and to ensure adherence to sustainability standards to promote this new and promising market.

- So in order to accelerate the mobilization of financial resources and help align them with sustainable development, public sector actors including the **BMZ and partner governments have a number of instruments at their disposal – including the promotion of sustainability standards**. They are certainly not a silver bullet and policy makers need consider questions such as "What is the appropriate level for standards to be fixed at? What is too high? What is too low?", "What are the costs of implementation?", "Do we put undue burdens on those needing to adhere to standards?", "How can we create the right incentives to adhere to standards? What are appropriate carrots and sticks?"

- Nonetheless and although standard systems can be complex and there are usually **no one size fits all solutions**: Voluntary sustainability standards do have the potential to help us manage resource flows better. They can be game changers and help us align investments with the SDGs.