UN development goals and ESG investing

Cutting frictions, building economic growth

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When the investing community moves in unison, it can be a powerful force for good.

I am impressed by the increasing number of fund managers that incorporate Environmental, Social and Governance (ESG) factors into their investment criteria. It makes sense, not least in helping reduce risk.

Figures from the US SIF Foundation show ESG assets rose by nearly 70% between 2014 and 2016 – to more than USD 8 trillion. In a survey of institutional investors, State Street Global Advisors found that four out of five now incorporate an ESG component with their investment strategies. More than two-thirds say it has beefed up their returns.

But many big investors have gone beyond this. Some 1,200 of the world's largest investors have signed up to the United Nation's principles for responsible investment, and large numbers now back the UN's sustainable development goals (SDGs). These were adopted in 2015 and target a world free of poverty by 2030.

Targeting the UN development goals

What does this mean in practice? There are 17 development goals, but for the investment community they boil down to two overriding guidelines: making development part of the ESG framework and investing for the long term.

The development aspect is key. It's about investing in infrastructure, supporting financial inclusion, helping a country fund itself as cheaply and as efficiently as it can to provide room for investment.

There have long been pockets of development spending – regional development banks or individual investors that support microfinance. But I believe it is only when the investment community comes together to achieve proper scale in this area that it will make a real impact. We are already seeing this in specific areas.

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Bandwagon in green bonds

One example is the bandwagon in 'green bonds'. The market is barely 11 years old – and for the first few years there was just a dribble of issues. Then investors started to take interest and sovereign issuers woke up to the opportunities on offer.

Last year, issuance hit a new record of USD 155 billion, up from USD 87 billion the previous year. Some 37 countries tapped the market. The US (largely Fannie Mae), China and France accounted for more than half of the total, with Nigeria, Malaysia, Fiji, Lithuania, the UAE and Argentina also included in the list.

Bond issues qualify as green if their purpose is to fund an identifiable target such as renewables, conservation, clean transportation or adaptation to climate change.

As the sector has matured so have the rules governing it. Surely we can say that the green bond story is a prime example of what can happen when ESG goals align with economics and a critical mass of investors – with no external prompting – move in tandem.

Fourth industrial revolution

All of us in the financial sector are stewards of capital, much of it deployed globally. At Euroclear, we repeatedly use that stewardship to engage with emerging markets so they can more freely access international capital, extend their range of funding options and reduce their borrowing costs.

We accept that we cannot direct international capital flows, but we can play a part in enhancing the attractiveness of some developing markets – and so eliminate what were often barriers to inward flows.

The transformational potential of this new 'connectedness' cannot be overstated. This is the fourth industrial revolution. As emerging markets become progressively more integrated into the worldwide investment market, not only does their scope for expansion increase but the barriers between nations become increasingly less relevant.

With that, the potential for hostilities is also reduced. In a certain sense, contributing to economic growth, social inclusion and environmental sustainability in a connected marketplace also means contributing to world peace.

It's a brave new world for sure.