



THE RISE OF SUSTAINABLE FINANCE

Sustainability Forum
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What is Sustainable?

- Environment
 - Avoiding harm to the environment
- Social
 - Having a positive long-term outcome in addressing a social issue
- Economic
 - Long-term viable self-funding business model

How can these outcomes be measured?



What is Investment?

- Expectation of a return
 - Financial
 - Above market
 - Market rate of return
 - Below market
 - Social/environmental
 - Specific impact on a social or environmental issue

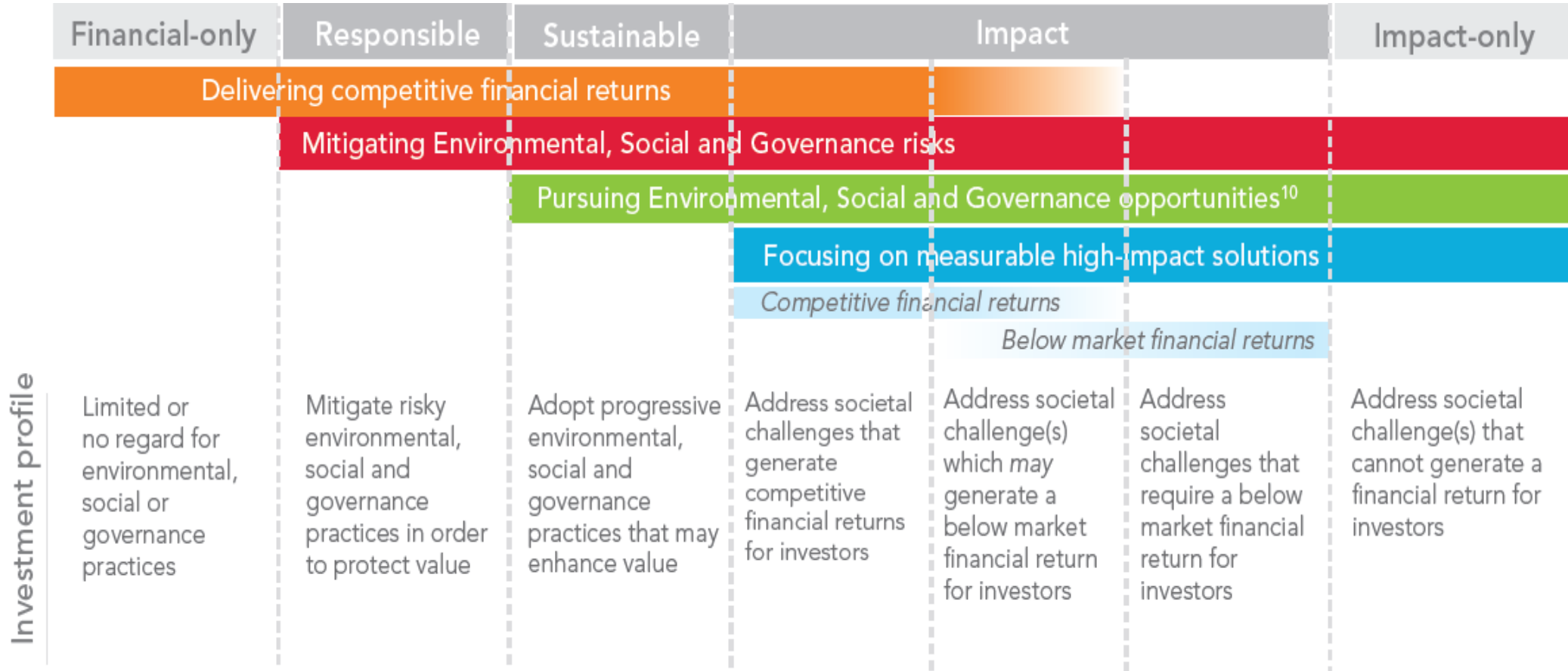


The Rise of Sustainable Investment

- **Socially Responsible Investment (SRI)**
 - A practice emerging several decades ago in which investors screen out companies with perceived negative products or practices.
- **Environmental, Social and Corporate Governance (ESG)**
 - Started as voluntary reporting of ESG factors focused on compliance/risk management.
 - Becoming mandatory in some contexts.
- **Sustainable Development Goals (SDGs)**
 - Increased number of investors and companies aligning to the SDGs.
 - Growing efforts to measure contribution to the SDGs.
- **Investing for Impact (Impact Investing)**
 - Investments focused on positive outcomes and impact.
 - Growth in the number of impact investment market players, investments and policies.



The Spectrum of Capital



Source: SIITF WGAA (2014) adapted from Bridges Ventures.



Some Key Milestones

- Global Reporting Initiative (1997)
 - GRI is an international independent standards organization that helps **businesses**, governments and other organizations understand and communicate their **impacts on issues such as climate change, human rights and corruption**.
- UN Global Compact (2000):
 - The United Nations Global Compact is a non-binding United Nations pact to encourage **businesses** worldwide to adopt **sustainable and socially responsible policies**, and to report on their implementation.
- Principles for Responsible Investing (2006):
 - PRI is an international network of **investors** committed to six voluntary and aspirational set of investment principles that offer a menu of possible actions for **incorporating ESG** issues into investment practice.
- Porter and Kramer (2011):
 - **Social or environmental factors** can impact a company's bottom line and therefore are important factors in business, markets and competition.
- Business Roundtable (August 2019):
 - Changing the purpose of the corporation from **shareholder primacy** to including a focus on **stakeholders**



In parallel, global policy-led movements are increasing focus on sustainability

Growing sustainability movement within the context of:



FINANCING FOR
DEVELOPMENT
13-16 JULY 2015 · ADDIS ABABA · ETHIOPIA
TIME FOR GLOBAL ACTION

- In addition, global processes such as those surrounding the **G7/G20**, **UNGA** and **World Bank/IMF** meetings, etc. are increasingly focusing on sustainability.



Sustainable Development Goals (SDGs)

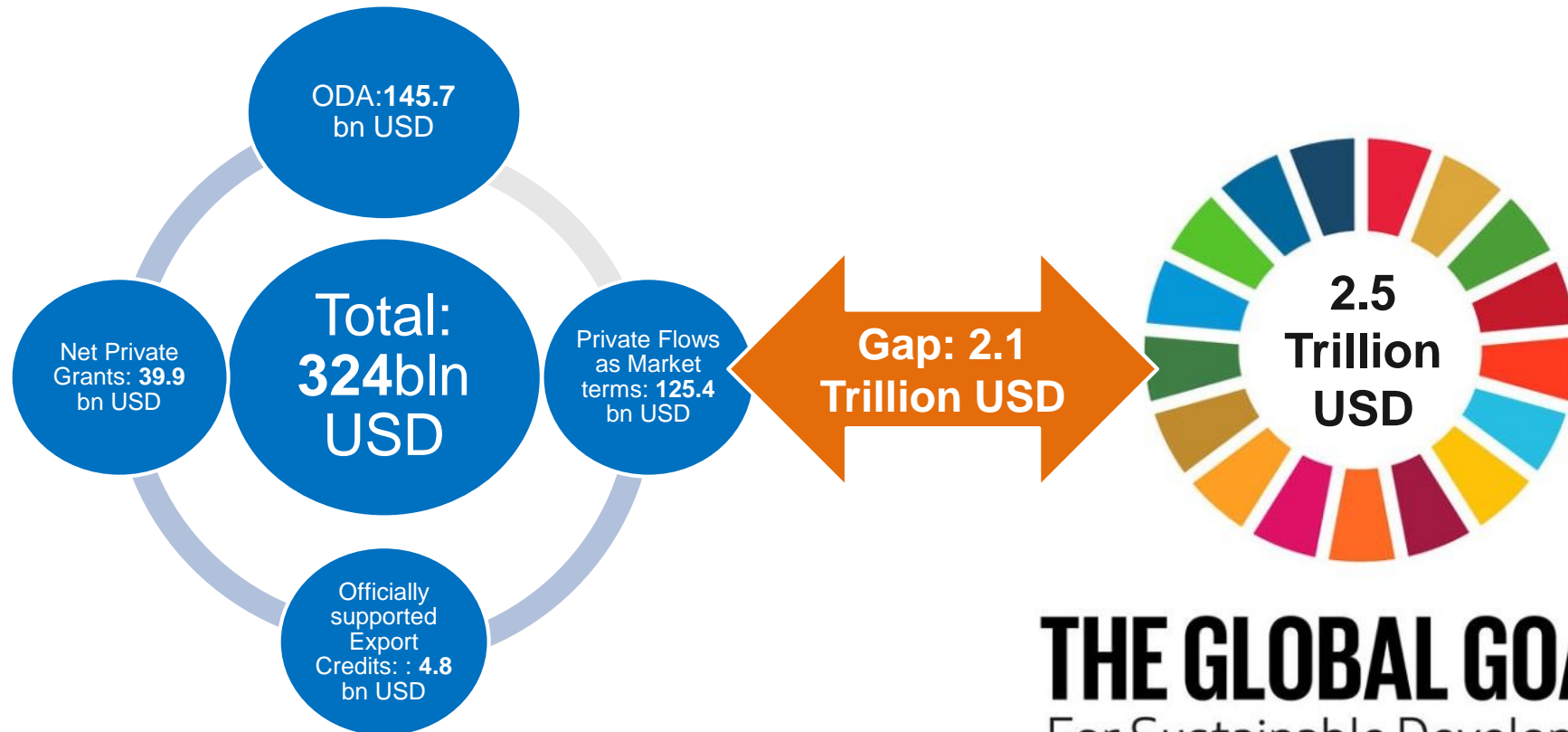




Financing Gap in Achieving the SDGs

Net resources flow to developing (and developed) countries are insufficient to address the **SDG financing gap**.

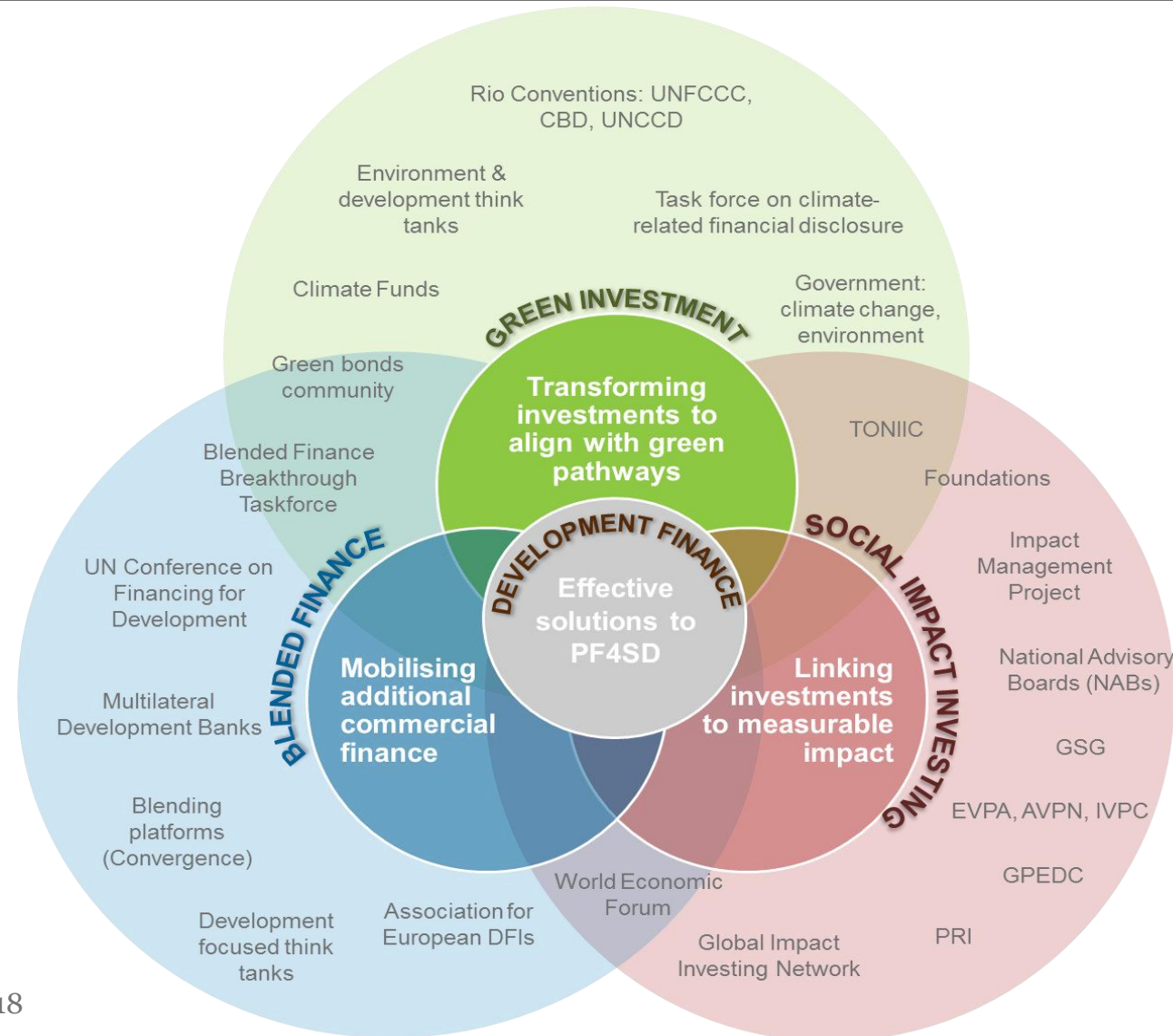
➤ ***Increased attention has focused on the role that the private sector can play.***



THE GLOBAL GOALS
For Sustainable Development



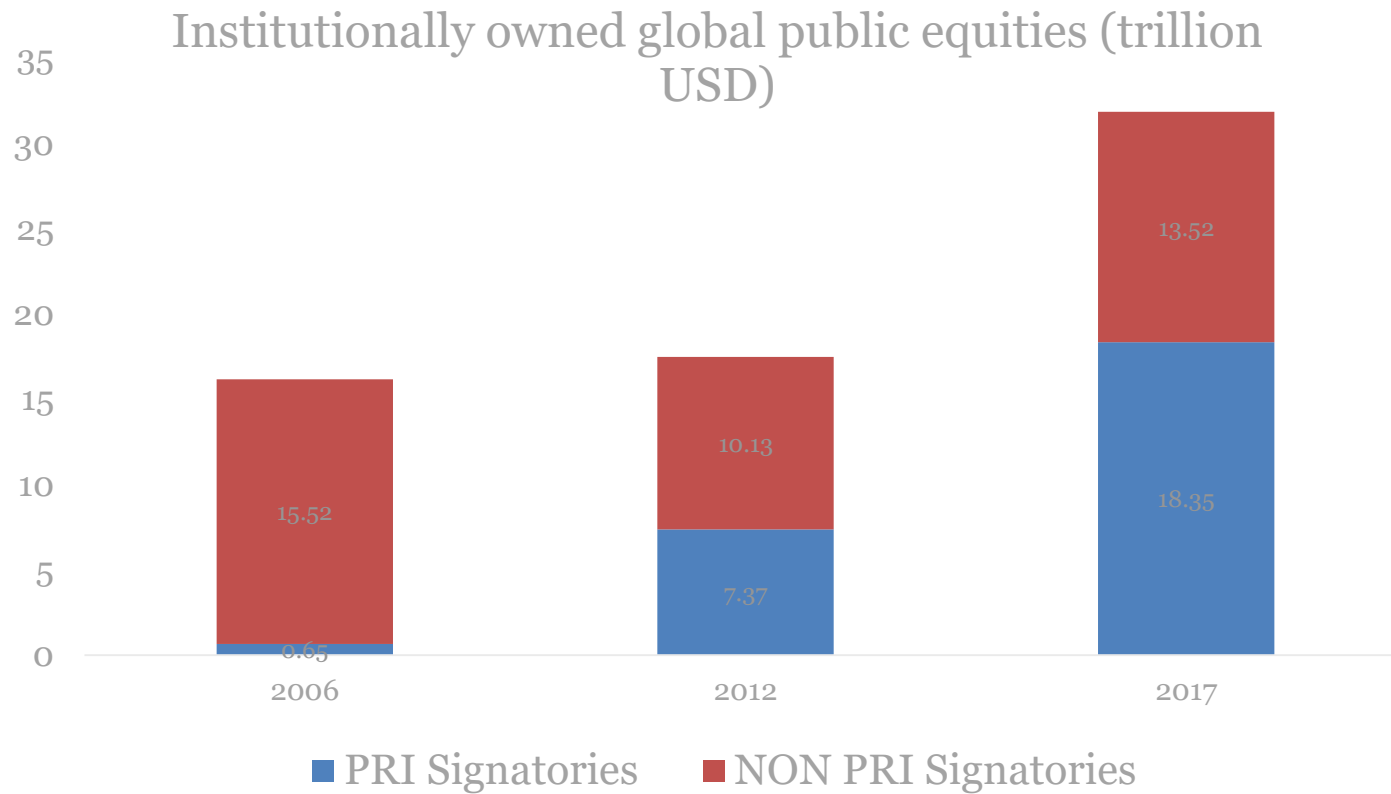
Financing for Sustainable Development Landscape



Source: Adapted from OECD 2018



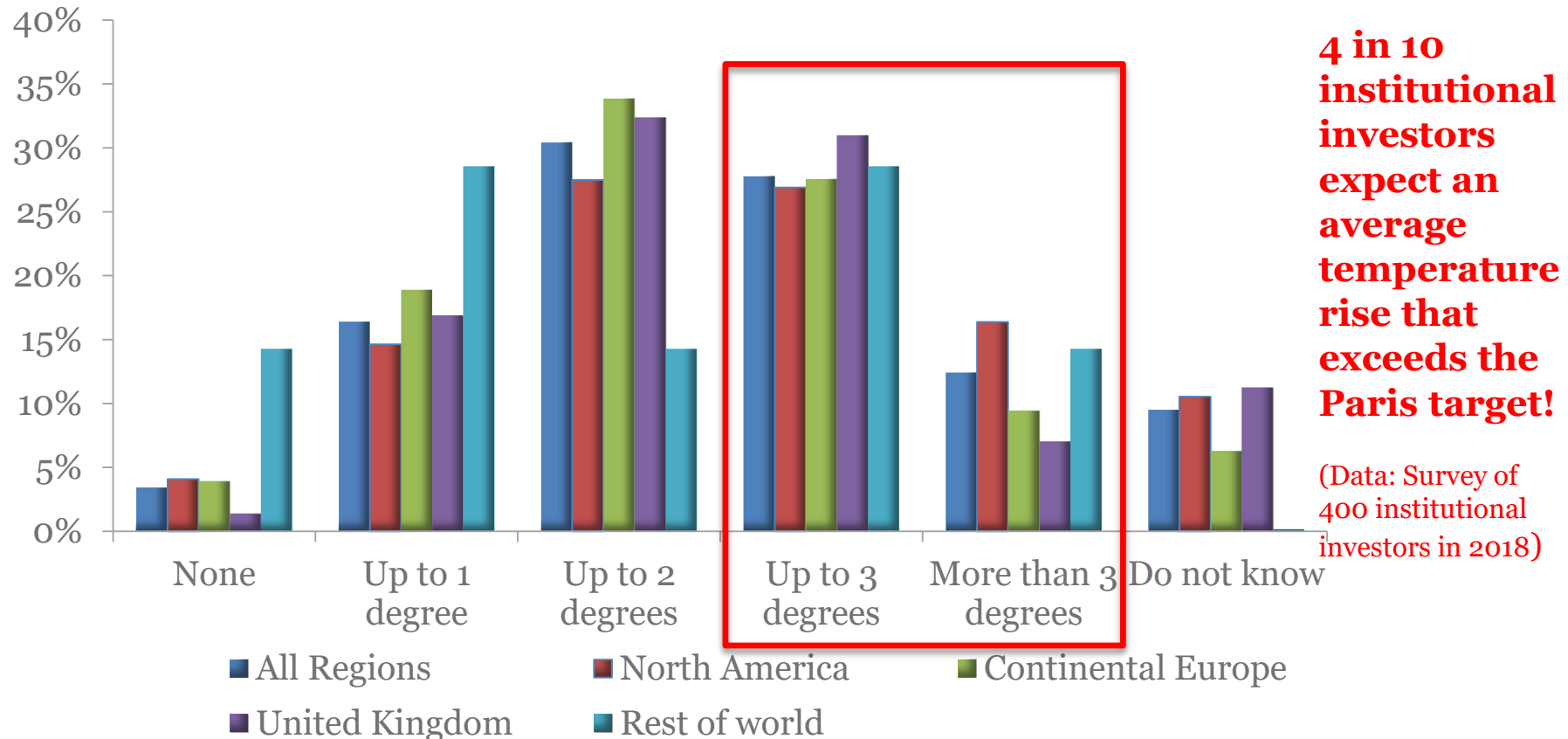
The majority of institutional stock investors are committed to sustainability



Source: Figure 1b, Gibson, Glossner, Krüger, Matos, and Steffen (2019)



Many institutional investors are expecting extreme climate scenarios by 2100



Source: Figure 1a, Krüger, Sautner, and Starks (2019)



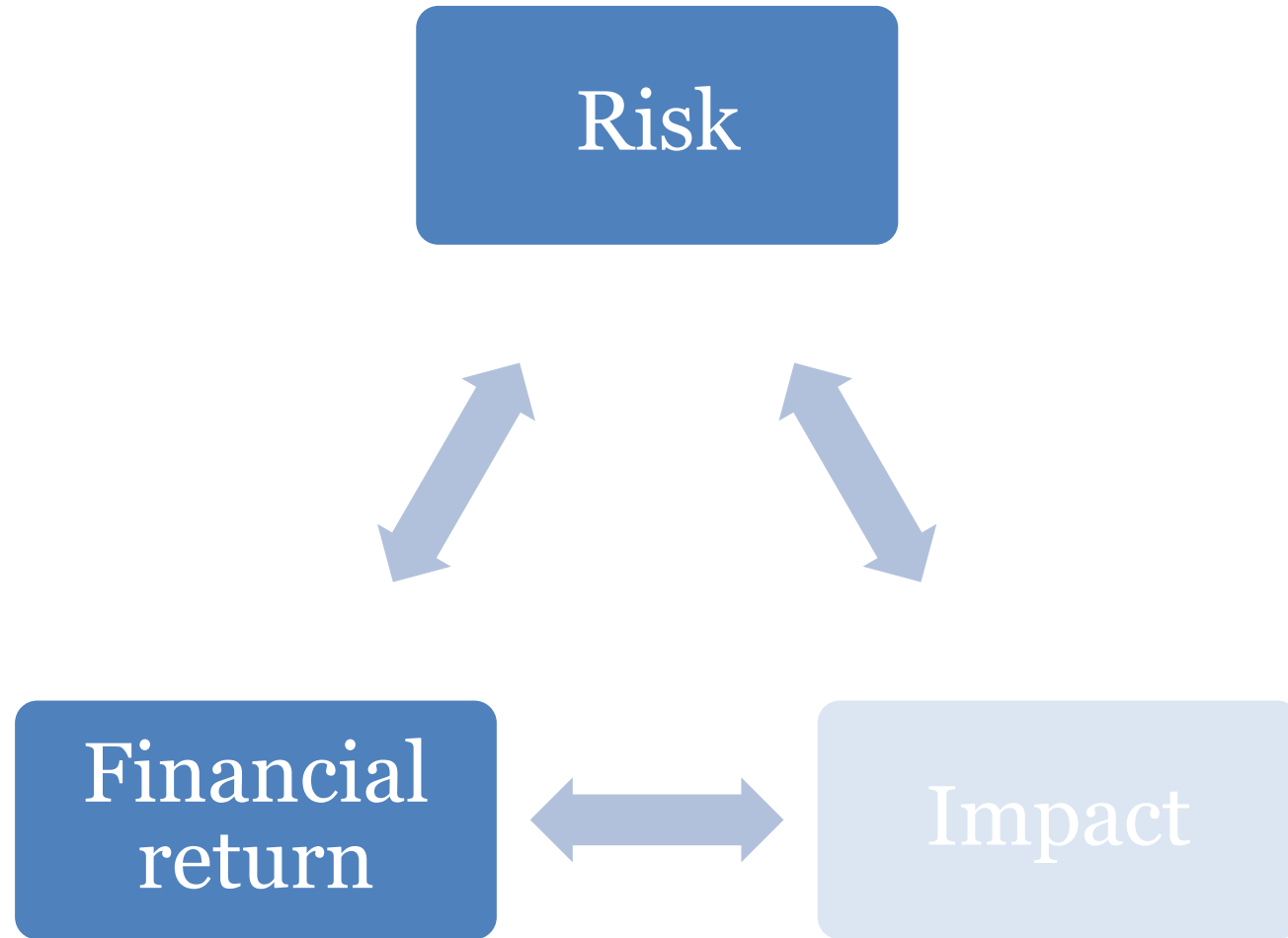
What are financial institutions really doing about climate change?

Are they taking appropriate actions in their

- investment decisions?
- lending decisions?
- engagements with companies?
- engagements with policy makers?
- voting at annual shareholder meetings?



Risk/Return/Impact (the missing piece)





The Impact Imperative for Sustainable Development





OECD Social Impact Investment Initiative



OECD Phase I Publication (2015)
**Social Impact Investment:
Building the Evidence Base**

- Social Impact Investment definition
- Characteristics and Attributes of Social Impact Investment
- Social Impact Investment Market Framework
- Social Impact Investment Market Data



OECD Phase II Publication (2019)
**Social Impact Investment 2019:
The Impact Imperative for
sustainable development**

- Global state of the Social Impact Investment Market and regional perspectives
- Social Impact Investment Policy Framework and mapping of policy levers
- Data and measurement: Transparency principles
- The Impact Imperative and policy recommendations



SSER Sustainability Forum: Discussion Questions

- How are trends in sustainable finance evolving globally, in Europe and in the Baltic Region?
- What is needed to encourage more investors to progress from risk migration to seeing positive social and environmental impact as well?
- What role can policy play in facilitating the development of the market?



THANK YOU!

For further information and to access the 2019 report
visit:

<https://oe.cd/SII2019>

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