

Remarks

by

Navid Hanif, Director of Financing for Development Office, United Nations

at the

**WBA Event on Financing the Decade of Action: Transforming Capital Markets for the
SDGs**

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- In your remarks this morning, many of you have highlighted the benefits of aligning investments with the SDGs, including higher returns and better diversification. You have also pointed to the fact that despite a steady increase in ESG investment over the past few years, we have not seen sustainable investment moving to the mainstream.
- At the same time, the Covid-19 crisis has made clear that environmental and social issues have a deep and direct impact on economic stability. Tail risks are real and can wreak havoc on the real economy.
- As we face the unprecedented economic fallout of COVID-19, we must ask one question on which I want to focus my remarks this morning: How is COVID changing capital markets and our efforts to align investments with the SDGs?
- Many of you are familiar with the groundbreaking theories of Nobel-laureate and Princeton economist Daniel Kahneman and his work on biases, notably the status quo bias.
- By profoundly disrupting the economic status quo, COVID-19 has also disrupted the powerful status quo bias within markets. It may give markets the nudge to break with pre-COVID investment habits and align capital markets with the SDGs.
- We can already see a few positive signs of this trend in investor sentiment. As a recent JPMorgan survey showed, more than two-thirds of investors agreed that COVID-19 has increased actions among investors to tackle risks such as those related to climate change.
- Trends in markets tell the same story: Investments in ESG are booming since the start of the year with the fixed income ESG market expected to be up 36% by year end.
- Yet, as keen observers of markets know, trends are not enough. We need to see a transformation that sets capital markets on a new trajectory. To achieve this, we must actively shape this transformation. Let me highlight three concrete steps to build on the heightened urgency and nudge capital markets in the right direction.
- First, capital markets must direct more funds to companies and projects aligned with the SDGs. This requires that investors should make informed investment decisions with comparable data and metrics. To achieve this, we need to make sustainability reporting mandatory. Investors are demanding more clarity, policy must follow suit.
- We also need clarity on a definition of sustainable investment. The UN Global Investors for Sustainable Development Alliance has developed a definition of what constitutes

sustainable development investing that could serve as an effective norm for the market. I believe it can be a powerful step towards a new status quo.

- Second, we need to establish clear standards to identify economic activities and companies that are aligned with the SDGs. The European Union (EU) taxonomy is a significant step in this direction, but taxonomies should go beyond climate change to cover all the SDGs and be harmonized globally. This will help investors steer financing to activities aligned with the SDGs.
- Third, we need to move beyond the status-quo bias in investment instruments and foster innovation to use existing and develop new instruments and asset classes for sustainable investment. This includes COVID bonds and other instruments geared to channel investment into the COVID recovery.
- It also includes potentially path-breaking innovations like new sustainability and liquidity facilities. A new repo facility for Africa, for instance, could entice investors to enter new markets and reduce borrowing costs.
- Our status quo bias must not stop us from turning bold ideas into reality. Being in uncharted territory, it is up to us to cast the way forward.
- Let me finish on a quote by Kahneman: “All of us would be better investors if we just made fewer decisions.” Indeed, I believe we must make one fundamental decision: To follow through on our commitment transforming our capital markets. And the three steps I just highlighted will take us some way down that road.
- I would like to invite you to engage with us to collectively advance this agenda. This includes leveraging our intergovernmental platform to accelerate the necessary regulatory changes for financial sector transformation.
- I also invite you to operationalize the Sustainable Development Investing (SDI) definition recently agreed by the GISD members. The benchmarks developed by World Benchmarking Alliance could be very useful to this end.
- To nudge capital markets into the right direction and the future we want, we must join forces. As we see the old status quo in capital markets come to an end, we must act together to build a new status quo aligned with the SDGs.