# MAKING MARKETS FIT FOR SDG IMPLEMENTATION

By Herman Mulder

**2015 was a marquee year in international cooperation (the last one?) through the adoption by the UN of the SDGs and the 1,5 C Paris Climate Agreement. The SDGs set the stage for a medium term, comprehensive (for People, Planet & Prosperity), global and universal (public & private sectors) blueprint and action plan.**

### MAJOR BUSINESS OPPORTUNITY, PROVIDED THE CONDITIONS ARE RIGHT

The SDGs form an aspirational 'doing good & well' opportunity agenda and are conditioned by the 'do no harm'-ESG floor. The 2017 'Better Business, Better World' Report of the Business and Sustainable Development Commission estimated significant incremental business opportunities by the SDGs of at least (gross) $ 12 trillion per year by 2030 in four 'hotspot' areas: Food & Agriculture, Cities, Energy & Materials, and Health & Wellbeing. For comparison, the global GDP was $ 80 trillion in 2019.

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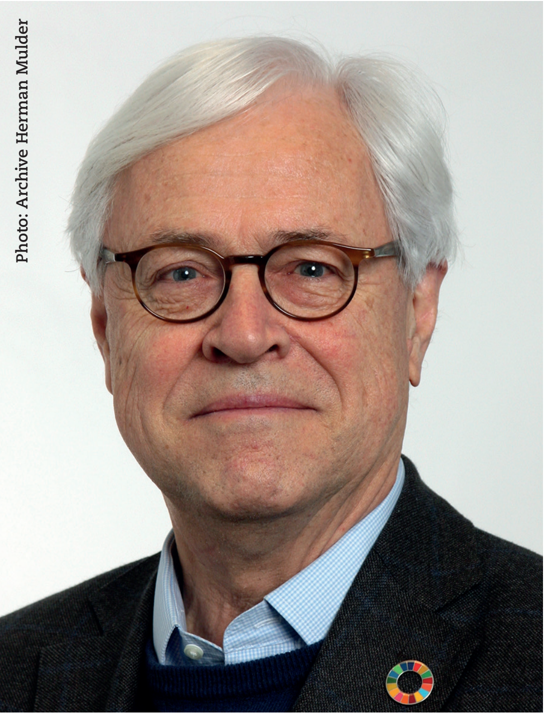

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### THE 2020 PANDEMIC IS A MAJOR SETBACK: THE COSTS OF INACTION...

The real 'black swan' of the Covid-19 pandemic was our lack of preparedness. Late recognition and underwhelming, divergent responses have proven to be very damaging for people, disruptive for the economy and expensive for governments. In January this year, the World Economic Forum issued its 2020 Global Risks Report in Davos, plotting 'infectious diseases' only in the 'high societal/low business' risk/impact category.

### ...WITH MULTIPLE NEGATIVE CHAIN-EFFECTS...

The pandemic (SDG 3) had serious negative knock-on effects on many of the themes addressed in the SDGs, notably the economy, employment, poverty, inequalities. This impact chain illustrates the logic of the global, universal and comprehensive nature of the SDG-framework: the interdependency of peoples and interconnectedness of issues require a collective and integral approach: leave no one or any SDG behind.

### ...REINFORCE THE URGENT NEED FOR CONDITIONED, COLLECTIVE RECOVERY ACTION!

'No planet, no people: no prosperity, no profit': the pandemic has made us aware that nature has surprises and boundaries, but no borders. The 2008 Great Financial Crisis (GFC) was caused by the financial sector with subsequent serious impacts on the real economy. The current Covid-19 crisis is quite different and worse: it started in the real economy, with greater and longer lasting, even fundamental, consequences.

### A 'PERFECT STORM' WITH COMBINED PRE-EXISTING AND NEW CHALLENGES

Prior to Covid-19, and underlying the SDGs and the Paris Agreement, the combined growth of population and welfare and the way we manage our economies were already contributing factors to an unsustainable world: we are already using our natural capital well beyond our planetary boundaries. We tolerate increasing inequalities. We face geo-political fragmentation and local social disturbances. Pre-existing high debt-levels were high already.

### WE ARE LIVING IN AN AGE OF CONSEQUENCES, DISTURBANCES AND DISRUPTIONS

The aforementioned forces may further erode fundamental values of our society: the rule of law, public accountability, trust in democracy and its governing institutions. Covid-19 stabilization and recovery programs are financed by public debt, further mortgaging the future, causing more fragility in our economies.

### FROM ACCIDENTAL PAIN...

Apart from the lack of public health resilience, the pandemic has exposed us to other gaps as well: (1) an international governance and leadership gap, (2) an equity gap, consisting of an increasing financing imbalance with all current programs financed by public debt, (3) a humanitarian gap, with the economies in the global South being more seriously affected. Covid-19 must also cause us to rethink the role of government, the prevailing neo-liberal 'light touch' role of governments and the focus on short term results and cost efficiencies in government and business have reduced our resilience and 'future fitness'.

### ...TO SYSTEMIC GAIN, IF ORDERLY EXECUTED, WITH AMBITION

The SDGs and the Paris Agreement should be the keys for such a reset, rebuild and regroup. A collaboration between public and private parties with smart, budget-efficient input and outcome-effective solutions, is needed to address social, environmental and economic issues. To 'spark' a sustainable economy, a coherent and well-directed set of government incentives and removal of obstacles need to be put into place.

### COLLECTIVE ACTION TO REGROUP, RESET, REBUILD

Government should 'make a better society possible', offering the enabling space to activate all societal actors by creating a coherent regulatory and policy environment which sets a clear direction with boundaries and is catalytic, with smart interventions and instruments for business and civil society 'to make such a society happen'. Business should strive for long term value creation for all stakeholders without ignoring the short term realities, guided by principles of ethical, sustainable, multi-stakeholder, impact-sensitive multi-capitalism and the SDGs. Civil society should act as a challenging partner.

### A NEW ECONOMIC PARADIGM: THE IMPACT ECONOMY

The new economic paradigm is measuring and managing returns on the relevant capitals (financial, natural, social, human) referenced against the SDGs[1]. Business needs to define its purpose in society. Stakeholder-inclusive, context-sensitive and forward-looking due diligence on the basis of 'double materiality' (for the company and its stakeholders) in the entire value chain will strengthen long term value creation for all stakeholders, including society. Forward-looking integrated reporting (including verified impact statements) should become the norm.

### SYSTEMIC CHANGE: MAKING MARKETS WORK FOR SDG PURPOSE & IMPLEMENTATION

Today's markets are not efficient in our 'age of consequences' and are blind to our 'desired state of society': the 'invisible hand' of Adam Smith needs brains and a heart. Traditional methodologies for product prices and asset valuations are misleading, as these are not explicitly considering externalities or the values, cost and benefits of others forms of (scarce) capital other than financial.

### FROM ADDITIONALITY TO CATALYTIC GOVERNMENT INTERVENTIONS

Accelerating and scaling of ambitions can only be effectuated if governments step up by creating the enabling conditions for business to deliver, by 'Making Markets fit for SDG Implementation'. Governments may consider themselves constrained by the limitations on state support and by the principles of 'additionality': government sponsored financing structures and instruments are in principle available only if there is a case of specific market failure. However, at the moment we are suffering from a general, massive markets failure!

### EQUITY, BLENDED FINANCE AND FINANCIAL INNOVATION

Much mobilization of equity capital requires a positive outlook for the economy and a supportive and coherent regulatory and policy framework. Blended finance needs to be further developed and applied at scale with new complementary funding and risk distribution approaches, such as the availability of public start-up, scale-up and/or patient equity capital, impact related partial risk guarantees (with social performance triggers), transition financing with de-risking and pricing incentives, green, social and development impact financing, pay-for-performance structures, contract-for-difference structures, $CO_2$-floor pricing insurance.

### FINANCING THE SDGS: MORE THAN SMART MONEY ALONE

Other drivers are also needed to spark, implement and facilitate the recovery: strong government policy statements, regulatory measures and budgetary allocations, green tax reform, Civil Code improvement on social enterprises, mandatory purpose, due diligence, stakeholder inclusion, integrated reporting with impact statements, true pricing and competition law.

### FINANCIAL SECTOR AS 'STEWARD FOR GOOD & WELL'

The financial sector needs to: (1) redefine its core purpose as being a steward, by advice and capital mobilization, for responsible and sustainable value creation for its customers, investees and society-at-large, (2) deliver on a fair Risk, Return and Impact Balance, (3) apply a 'multi-capitals', true pricing and impact weighted account approach, and (4) use its leverage on their customers and investees in their value chains. Also, the sector needs to be liberated from its own regulatory 'lockdown' since 2008/9: the business line of banks is the first line of defense (to protect depositors), not exactly stimulating stewardship. Pension funds need to balance the long term value interest to contribute to the SDGs for their future pensioners, as well as the duty to generate sufficient income today for the current ones. «

1 See also: www.impacteconomyfoundation.org.

**This article was written by Herman Mulder, Chair of the Impact Economy Foundation.**