Shaping the future by integrating the SDGs

Funding the SDGs exceeds the capacity of public funds – mobilising private wealth will be critical

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The record-breaking summer of 2018 has clearly shown that climate change is taking place and that measures are urgently needed. However, our society is facing major challenges from an environmental, social, technological and political perspective. We are the first generation to destroy our planet, and we are the last that can save it. We must all fulfil our social and corporate responsibilities and contribute to a sustainable future.

The financial sector, and banks in particular, can and must play a central role in the necessary transformation process, mobilising and channelling the financial resources needed. The question will soon no longer be, 'why sustainable?', but rather, 'why not?'.

UN SDGs are key

In 2015, the UN adopted Agenda 2030, with the backing of all Member States. The core components of this agenda are 17 Goals for sustainable development, the SDGs. For the first time, sustainable development and combating poverty have been combined in a single agenda. It aims to achieve an all-round improvement of the future: the future of our planet. "No one shall be left behind", emphasised then UN Secretary-General Ban Ki-moon when adopting the SDGs.

The holistic dimension of this sustainability approach shows that new ways of thinking and acting are urgently necessary. Only then can a compromise be reached between sustainability and development. But the true test is yet to come – namely implementation. The UN can only achieve these goals if all actors play their part: states, businesses, local communities and each individual person.

A question of allocation

The inclusion and mobilisation of private wealth is crucially important for reaching the SDGs. According to the consulting firm PwC, the annual global investment volume required to achieve these goals is some US$7 trillion. Currently, only one seventh of this amount is financed by public funds.

This means a substantial portion must come from the private sector. Enough capital would be available in principle, given that even just the assets managed by institutional investors around the world amount to about US$83 trillion. Private investments and investments by institutional investors could accordingly be employed worldwide to end hunger, ensure education, promote health and wellbeing, secure access to affordable and clean energy, support innovation and infrastructure projects, and fund climate protection measures.

Asset owners will therefore be critical for a more sustainable future. Their preferences ultimately decide how capital is channelled into the economy. At present, there is no commonly agreed definition as to when an investment can be considered 'sustainable'.

The taxonomy that is currently being developed under the leadership of the European Commission aims to overcome this lack of comparability and the inherent uncertainty by establishing an EU-wide classification system. It will be essential that we get this right. With a robust and workable taxonomy, banks and other stakeholders will be better able to enhance awareness, to deliver on investors' preferences and to improve investment advice and suitability.

Furthermore, in order to overcome the challenges we are facing and to achieve the SDGs by 2030, a coordinated approach across sectors and cooperation between the public and private sector is needed as never before. This includes blended finance as a critical tool that can mitigate early-entrant costs or project risks, helping re-balance risk-reward profiles for pioneering investments and unlock those trillions – and as a result close the funding gap.

'Next-Gen' plays an important role

According to the Global Impact Investing Network (GIIN), to which 1,300 impact investors belong, the volume of impact-related investments has more than doubled in recent years to an estimated US$502 billion. This increase is primarily attributable to millennials.

Currently, approximately 75 per cent of millennials take into account ESG principles when investing. In addition, about 460 billionaires will pass on roughly US$2.1 trillion to the next generation over the coming 20 years. This means that high net worth individuals, and in particular the young generation, will also play a major role. This generation is less motivated by material wealth, being more driven by values and an interest in changing the environment and society for the better. Millennials are not just interested in short-term performance, but also in the question of whether their money is being invested in a meaningful and responsible way. And they are the same generation for whom use of digital technologies is a matter of course in everyday life.

Digitalisation and sustainability are thus more than just trends, they are integrated issues that financial firms absolutely have to come to grips with in order to survive in the marketplace in the longer term. Neither is more pertinent than the other, for both will substantially determine the industry agenda over the next few years.

Interestingly, digitalisation and sustainability are increasingly behaving like twins. Progressive digitalisation will simplify many things. On the one hand, it will help us to automate processes, reduce costs and achieve positive economies of scale. On the other hand, the fact that the effective impact of an investment or portfolio (in terms of ESG factors) was difficult to quantify and measure was an obstacle for a long time.

With the help of digitalisation, this will be much easier and effective in the near future. The availability of a comparable data set will allow asset managers to translate the data into financial investment metrics. Thus, the ongoing digitalisation of the financial industry is undoubtedly playing an increasingly important role. Sustainability is the *what*, while digitalisation – and especially blockchain technology – will in future heavily influence and facilitate the *how*.

In a nutshell

This all demonstrates that there is a need for action, information and education. The financial industry plays an essential role. It is apparent that to overcome these obstacles, leadership at the top of every financial institution is needed, driving change and accepting responsibility – for ourselves and for future generations.

It is important that sustainability is embodied in the corporate culture and at the strategic level. The tone must come from the top. Ongoing digitalisation opens up new opportunities to tackle all these issues, be it having correct data available, everywhere at anytime; new educational tools; innovative business and working models; or more sustainable financial products and services. It will also enable us to reach out to new-generation clients via innovative channels. ■

ABOUT THE LIECHTENSTEIN BANKERS ASSOCIATION

Established in 1969, the Liechtenstein Bankers Association (LBA) is the domestic and international voice of the banks operating in and out of Liechtenstein. It is one of the country's most significant associations and plays a key role in the successful development of the financial centre. Member interests are pursued in accordance with the principles of sustainability and credibility.

As a member of the European Banking Federation (EBF, www.ebf.eu), the European Payments Council (EPC, www.europeanpaymentscouncil.eu) and the European Parliamentary Financial Services Forum (EPFSF, www.epfsf.org) the Liechtenstein Bankers Association is a member of key committees at the European level and plays an active role in the European legislation process.

Since 2017, the LBA has also been a member of the Public Affairs Council (PAC, www.pac.org) with offices in Washington and Brussels. Since April 2018, it has also been a member of the international network Financial Centres for Sustainability (FC4S, www.fc4s.org).

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