The Call for a European Investmentwende: A Positioning Paper Toward the Future of Investing

How to Finance a Future-oriented, All-inclusive, Sustainable Economy

After the Rio+20 Summit there have been numerous global efforts geared toward the development of an inclusive and green economy. However criticized by the media, Rio+20 could become a turning point in the future of sustainable economics, finance, and business. Its 745 voluntary commitments,[1] 200 of which were made by the business and financial community, include a) the Natural Capital Declaration[2] emitted by 37 banks, investment funds, and insurance companies and which is aimed toward the integration of natural capital criteria (i.e., soil, air, water, flora, and fauna) in their products and services; b) the Sustainable Stock Exchanges Initiative,[3] a commitment by five major stock exchanges that collectively list more than 4,600 companies to promote sustainable investments through a global call for sustainability disclosure and performance; or c) the AVIVA's Corporate Sustainability Reporting Coalition (CSRC)[4] of more than 40 like-minded organizations, including institutional investors managing approximately $2 trillion.

It would be easy now to join the ranks of those who stand on the sidelines and criticize not only the Rio+20 outcomes, but also any other efforts geared toward developing more sustainable structures for economic, business, financial, environmental, or political organizations for that matter. This is not the intent of this paper. Its aim is to make a constructive contribution toward a more sustainable infrastructure in the investment industry.

However, *we can only achieve what we measure*!

Why Profit-only Won't Do It

Needless to say, financial sustainability is one of the most important factors in a sustainable economy. Yet it cannot remain the only leading factor as we have learned from the current global crises. However, the *only* criterion by which we currently measure our economic success is single bottom line, or financial profit. Unless we expand financial sustainability to include measurement criteria for the sustainability of both people *and* the planet, we will fail to create a sustainable economy because we will not know what exactly we are supposed to achieve.

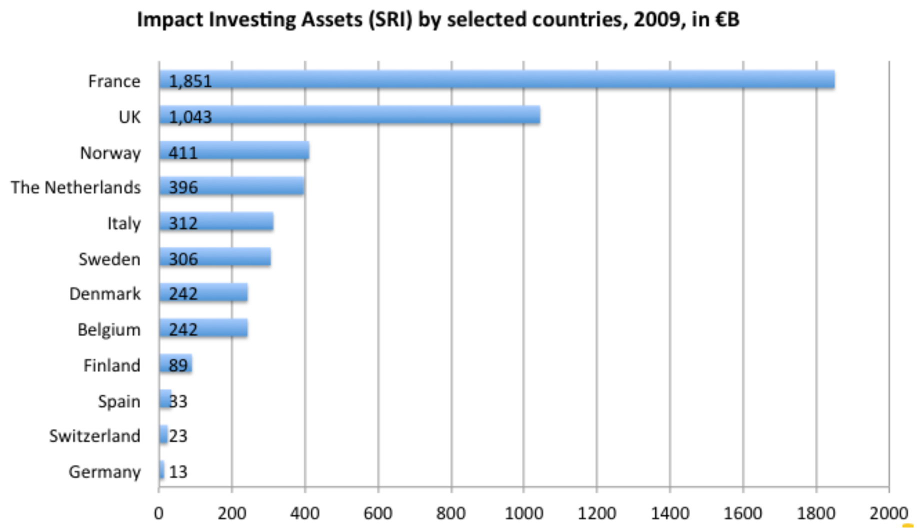
As a private equity investor and advisor to various governments, including China, the Netherlands, Israel, Germany, and the U.S. State Department, I am positive that there is plenty of capital available to finance the shift to an all-inclusive and sustainable economy. Yet, in order for the required capital to manifest, the political system must support the current integrating investors and provide the necessary incentives so that capital can flow toward the development of a sustainable economy.

Therefore, the intention of this paper is to initiate the call for the development of an integral investing landscape in the European Union along with politically mandated incentives and multiple bottom line measurement criteria. Political and legislative are required in order to accelerate the development of low-carbon/green economies and prevent further social unrest, inequality, and environmental degradation.

Germany and Switzerland Rank Last within Europe's Sustainable and Responsible Investment Scene

On a global scale, it is encouraging to witness that the financial mindset is slowly shifting from single bottom line (for profit only) metrics toward triple bottom line (people, planet, profit) measurement criteria. This is the case in Impact Investing, also known as Sustainable and Responsible Investing (SRI). By 2015, the global impact investing capital is expected to represent up to 20% of the total assets under management worldwide.[5]

For example, German investors are currently missing out on these substantial developments (see figure below).[6] In 2009, less than 1% (or €12.9 Bn) of all German assets went into impact investments (as defined by Eurosif), whereas in the Netherlands Impact Investing represented 33% (or €396 Bn) of total assets. At the same time, France had 140 times, the United Kingdom had 80 times, and Italy three times as many impact investing assets as in Germany. The latest Eurosif SRI Study[7] confirmed again the conservative trend following which German investors invested in 2011 only 40,2 Mrd. Euro in Impact Investing.



Moreover, less than 4% of all German pension funds and less than 2% of corporate pension funds apply some form of SRI criteria to their investments. In fact, the sentiment index for investing in sustainable investments decreased on a scale from -100 to +100 from 22 in 2011 to 4 in 2012.[8] Moreover, as of June 2012 only 31 German organizations, including asset owners, investment managers, or professional service partners, had signed the Principles for Responsible Investment of the UN.[9] Without legislative incentives and proper measurement criteria, the private sector is moving too slowly toward a sustainable economy (only 0.8% of total assets in 2009), although individual capital owners,[10] organizations,[11] companies,[12] and philanthropists[13] are self-organizing to counteract current crises and to develop viable strategies. Our problems are of *structural* nature and require *structural* changes within our economic, financial, and business makeups.

Call to Action: The European Investmentwende

Through this paper, we offer our support and invite the EU member states to take the global lead toward the development of a stakeholder-driven Sustainable Green Economy, including Multiple Bottom Line measurement criteria and more integrated financial, business, and economic structures

The following topics and questions must be addressed:[14]

1. *How to Increase the Supply of Impact Capital toward Sustainable Development*: Attract significant capital by providing policies, investment rules, incentives, as well as requirements that offer co-investments, share the investment risk with the government, and mandate or prioritize impact investments. The intention should be geared toward adding explicit measurement criteria for People and the Planet to the current profit-only measurements across all asset classes (i.e., call forth integral rating agencies). Examples given: EU's JESSICA program, India's Priority Sector Lending, the New Markets Venture Capital Fund in the United States, or crowd-sourcing legislation.

2. *How to Channel Capital toward Sustainable Development*: Develop policies that alter current investment behavior by providing tax incentives, subsidies, reporting requirements, and intermediation for directing capital toward sustainable and responsible investing. Adjust terms of trade, market norms, ratings, and prices according to sustainable economic rules that honor multiple bottom line criteria (i.e., social impact bonds, EU climate awareness bonds, the Dutch Green Funds Scheme, or the French Employee Savings Plans that encourage SRI investments).

3. *How to Increase Capacity Building and Capital Absorption Capacity* (Demand Development): Provide incentives, educate, encourage technological innovation as well as a start-up mentality in order to strengthen the absorptive capacity of capital recipients (regular businesses and social impact businesses). Enable, encourage, and incentivize the transformation of corporate structures that honor a long-term view and the implementation of multiple bottom-line reporting (i.e., introduction of structures like B-Corp and Hybrid Social Ventures in the United States, the Sustainability (SAM) Index, the National High-tech R&D Program in China, as well as the Community Interest Companies in the United Kingdom).

Looking forward to hearing from you at your earliest convenience

Sincerely, yours

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Ver.de Versicherungsverein auf
Gegenseitigkeit i.G.
Entelios AG TBLI Group
Rockefeller Philanthropy Advisors
IMSA Amsterdam
Integral Institute
MetaIntegral

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[5] Robeco, Booz & Co. (2009) *Responsible Investing: A Paradigm Shift from Niche to Mainstream.*

[6] Eurosif. (2010). European SRI Study (2010). Revisited Edition.

[7] Eurosif (2012). European SRI Study 2012, „the total of sustainable investment in Germany [in 2011] includes, alongside sustainable funds and mandates, sustainable assets in the amount of €40.2 billion“, p. 42.

[8] Schäfer, H. (May, 2012). „Nachhaltiges Vermögensmanagement institutioneller Anleger 2012,“ Research slides by Union Investment in cooperation with professor Herny Schäfer of Stuttgart University, down loaded May 2012 from http://unternehmen.union-investment.de/Downloads/UMH/Studien/7f732a9b7f170a3de63209b23b0d112e.0.0/20120503_Nachhaltigkeitsstudie_2012_Charts.pdf

[9] Principles for Responsible Investment of the UN. http://www.ipe.com/news/germanys-bvk-adopts-uns-principles-for- responsible-investment_40150.php

[10] Eurosif (2010a). High Net Worth Individuals & Sustainable Development.

[11] GIIN, Global Impact Investing Network, http://www.thegiin.org/cgi-bin/iowa/home/index.html

[12] Strong, M. (2009). *Be the Solution: How entrepreneurs and conscious capitalists can solve all the world's problems.* Hoboken, NJ: Wiley & Sons.

[13] Giving Pledge, (2010). *Forty U.S. families take giving pledge: Billionaires pledge majority of wealth to philanthropy*.

[14] These topics represent an integral adaptation and enhancement of current frameworks discussed and developed by ICC, WBCSD, AQAL Investing, as well as the Impact Investment discussion by Thornley, B., Wood, D., Grace, K., Sullivant, S. (Jan., 2011). *Impact Investing: A framework for policy design and analysis*. The Rockefeller Foundation.