3. All the Money in the World, And Who Has It

The finance industry, controlling more than 85% of the world’s gross financial wealth, is increasingly being called upon to fund the world’s problems. This ever-rising call to act is not set to abate and the industry’s leading financial institutions have begun to fund issues that were previously considered beyond their scope and mandate. However, the modern financial system does not allow for one player to have the discretion to fund, and without changes to the behaviors of all stakeholders, the world’s challenges will not get funded and expectations will keep rising. Neither the SDGs nor the long-term future can be achieved in the absence of funding at a level far beyond that currently envisaged. Ultimately, history shows that major world projects and transitions are funded and this time will be no different. The questions is only whether that can happen in a managed manner with stakeholders working together.

The SDG funding gap requires capital well beyond previous estimates and current means

The funding gap to fully achieving the SDGs could be as high as US$84-US$101 trillion over the next decade. This sum is well beyond the finance industry’s mandate and scope to finance without the support of the ultimate asset owners, in particular the individuals and households that control 60% of these assets, as well as the support of their shareholders.
The world’s governments, under current frameworks and constraints, are not set up to meet commitments of this magnitude. Governments spent US$23 trillion in fiscal and monetary stimulus in 2020/2021\(^49\), of which the fiscal spending was US$16.5 trillion, nearly 11 times the amount spent by the G20 countries in response to the Global Financial Crisis of 2008\(^50\), and the monetary quantitative easing programs were US$9.1 trillion\(^{51}\). The stimulus measures were clearly critical to avoiding the domino effect of institutions and economies collapsing across the world, but they cannot be said to have addressed the SDG funding shortfall mentioned above in any material sense. As such, the gap has grown wider between the poorest and the richest economies and people in the world. And in addition, further capital will be required to fund investments in infrastructure, health systems, education, digital technologies and communications, and other critical building blocks of the future beyond 2030.

Given these circumstances, it is clear that private sector capital will increasingly and more urgently be called on to fund the SDGs, and in unprecedented amounts by other stakeholders. For this to be feasible, it is unlikely to succeed as an exercise in charity. It has to be in pursuit of the profitable construction of a new world with far greater wealth creation across the board.

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### A (Rough) Guide to All the Money in the World – The Stock and Flow of Global Capital

There is a temptation to think that banks, asset managers and financial institutions can finance the gap, at will, and not doing so is an indication of their lack of commitment to doing good. This view is based on a misunderstanding of the ownership and allocation of global financial assets in the system of capital. The global stock and flow of capital needs to be looked at from the perspective of who is the ultimate owner and critical decision maker. The Stock (wealth) and Flow (consumption) of capital can be analyzed to paint a picture of how capital flows through the system and where the key levers are. While precise figures are difficult to pin down given the lack of unified data sources and the potential overlap between various categories and definitions, the analysis points to a series of important indicative observations.

Some of the observations that arise from examining the “global stock of capital” (see Figure 9) are:

1. **US$571 trillion of total net financial assets** are estimated to be in the stock of capital in the global financial system in the year 2020, comprising US$329 trillion in net liquid financial assets.
and US$242 trillion of net illiquid assets, 71% and 79% of which, respectively, are held by individual households. ‘Net’ denotes the amounts before debt.

2. **US$717 trillion of gross financial assets** are estimated adding the associated debt, comprising US$401 trillion in gross liquid financial assets (56%) and US$316 trillion of gross illiquid assets (44%).

3. **Taking the US$401 trillion in gross liquid financial assets** only, US$255 trillion or 64% are owned by individuals, 36% are owned by governments (through their central banks, sovereign wealth funds and public finance institutions), with less than 1% coming from endowments and foundations.

4. 68% of these liquid financial assets (US$274 trillion) are allocated by asset owners (individuals and governments) to ‘asset gatherer-allocators’, and the balance of 32% being invested either directly or through other ‘direct investors’ (asset managers, hedge funds etc.), although the degree of control that asset gatherer-allocators have over the assets they invest varies widely.

5. **US$87 trillion in assets are controlled by direct investors, or third-party asset managers**, who receive funds from both asset gatherer-allocators and from asset owners directly.

6. The finance industry as a whole therefore allocates or manages in the order of US$350 trillion in total assets, more than 85% of the world’s total gross liquid assets, recognizing that there will be some double counting in the US$361 trillion of assets due to direct investors receiving funds from asset gatherer-allocators.

7. **Additionally, US$156 trillion in gross liquid assets, are held by non-financial corporations**, who while not the ultimate owners of their assets (belonging to their shareholders), make an important impact with their asset allocation.

8. 55% of the world’s liquid capital is held as debt, the largest category of liquid asset classes by far, followed by public equities. Liquid asset classes in order of size are public equities, government debt, corporate debt, financial institution debt, cash and deposits, consumer debt and private equity. These numbers have some double counting between them.

9. **In terms of illiquid assets**, US$217 trillion, 69% of the US$316 trillion in gross illiquid assets, are owned and managed by individuals, while 31% are owned and managed by governments (through direct investment and public sector undertakings).
Figure 9 - The Stock and Flow of Global Financial Capital

c.US$571tn Net Capital Allocation Landscape

Asset Owners: Net Assets

- **Net Liquid Assets (US$329tn)**
  - Net Household Wealth
    - Liquid Assets (eg, currency, deposits and equities): US$113tn (37%)
    - Other Financial Assets (eg, insurance and pension reserves): US$13tn (4%)
  - Government Financial and Public Sector Assets (Top 20 countries): US$330tn (19%)
  - Central Bank Reserves: US$33tn (1%)
  - Endowments & Foundations (Top 100): US$33tn (1%)

- **Net Illiquid Assets (US$242tn)**
  - Net Household Non-Financial Wealth: US$330tn (73%)
  - Non-Financial Assets: US$230tn (9%)
  - Public Sector Assets: US$30tn (12%)

**Debt**

**Asset Owners: Gross Assets, Including Debt, (US$717tn)**

- Gross Household Wealth
  - Liquid Assets: US$113tn (33%)
  - Gross Household Other Financial Assets: US$122tn (38%)

- Government Financial and Public Sector Assets (Top 20 countries): US$113tn (28%)
  - Central Bank Reserves: US$33tn (1%)
  - Endowments & Foundations (Top 100): US$33tn (1%)

- Gross Illiquid Assets (US$316tn)
  - Gross Household Non-Financial Wealth: US$217tn (64%)
  - Non-Financial Assets: US$217tn (64%)
  - Public Sector Assets: US$53tn (16%)

Notes:
1) Net wealth of each Asset Owner arrived at by adjusting the gross wealth by the debt held by each Asset Owner;
2) Asset Classes’ value is estimated at US$717tn (gross assets of Asset Owners) + US$116tn for double counting (cross holdings between companies and cross ownership of assets classes e.g., companies owning cash and deposits);
3) US$165tn of assets managed by banks includes current liabilities; 4) Insurance companies while
Observations that arise from examining the "global flows of capital" (see bottom of Figure 9) include:

1. **US$85 trillion of global GDP** represents the ‘flow’ of capital and is created every year based on the total GDP of the economies of the world, representing value created, and the total flow of goods and services across the world.

2. **c.73% (US$62 trillion) of total GDP of US$85 trillion is made up of consumption**, and 27% goes into forming capital for further investment.

3. **c.78% (US$49 trillion) of the total consumption of US$62 trillion is accounted for by individuals**, and 22% of consumption is by governments, a portion of which is transferred to individuals through fiscal measures.

4. **US$22 trillion of trade** is led by China, the US, Germany, with the EU exceeding the US, not far behind China in exports.

This analysis is a snapshot of the system but is broadly representative of how the system allocates capital. It leads to several important insights into the system of capital in the world today:

**I. There are four powerful players in the global stock and flow of capital:**

i. **The individual**, who holds 75% of global net financial assets (holding 71% and 79% of total liquid and illiquid assets respectively), as a collective.

ii. **The finance sector**, allocating or managing over 85% of the world’s gross liquid assets.

iii. **Governments**, with 28% and 20% of total liquid and illiquid, respectively, net financial assets at inception, being the other side of the equation of the individual.

iv. **Corporations**, with effective management control over the equivalent of 39% of total gross liquid financial assets (recognizing that they themselves are ultimately owned by individual, financial and government shareholders).

**II. The individual and the financial sector are the most powerful players in the system** in terms of the largest stock of capital in the system.

**III. The financial sector has a pivotal position of power as the agent that allocates or manages more than 85% of the world’s gross liquid financial assets and is required by law and regulation to provide returns, services, and other mandated outcomes on that capital to meet the requirements of its clients and its investors.**
IV. **Banks, Pension Funds and Asset Managers hold the largest stock of capital**, with Banks having US$165 trillion or 60% of the sector’s total, Pension Funds having US$53 trillion or 14% of the sector’s total, and Asset Managers having US$74 trillion or 19% of the sector, some of whom manage funds on behalf of banks and pension funds, hold the largest stocks of capital. These institutions act as managers of the assets and cannot act without the mandate and discretion provided by the individual in how their capital is allocated. (It is worth noting that financial institutions are often conglomerates and often have multiple businesses including, banking, asset management and other direct investing businesses.)

V. **This naturally points to the individual as a power player with ownership of 75% of global net financial assets** of US$571 trillion and therefore with a critical role to play in determining how their agents, the financial institutions, allocate their capital and to what extent it can be directed towards achieving sustainability outcomes vs. pure financial returns.

VI. **US$316 trillion of gross illiquid assets has a turnover too and places the individual as the most powerful.** While these tend to be relatively fixed assets, for example houses, they do experience turnover and so decisions regarding them matter too. Here the individual with owning and managing 69% is the most powerful, while governments with 31% are also very important.

VII. **The individual is also a power player in their consumption, representing c.78% of total consumption** of US$62 trillion in the past year. Their decision to choose differently on what they buy has a material cumulative impact on the value generated by corporations that hold their stock.

VIII. **Governments, having long held the responsibility to fund society at large, play a central role, but have a far lesser amount of this capital**, with 27% of the total liquid financial capital. Their power in the financial system comes from their allocation of this capital of course but also from their law making, fiscal and monetary policy and spend.

IX. **Corporations with direct control over US$156 trillion of total financial assets have an impact through the capital they allocate to activities and actors around the world.** While this sum nearly equals the total capital controlled by banks, corporations are significantly more constrained in terms of their investing flexibility due to their mandates and need to fund the cost of their own business activities with working capital and investments, with only a small portion of their total liquid financial assets ‘invested’ in the traditional sense.

X. **Trading relationships account for US$22 trillion** and have seen China rising in importance and the US falling to a far second place among countries, and similarly if the EU is taken as a whole.53

An important note is that given the world has 7.8 billion people, over 45,000 (listed) corporations and businesses, c.25,000 banks and 193 governments, the individual is powerful as a collective, while power is relatively concentrated in each of the other stakeholder categories.
Capitalism is a multi-stakeholder system

While financial institutions have a mandate to hold and manage capital on the individual, the fact that this mandate is held by a highly concentrated number of institutions (particularly when compared to the number of people in the world) means that there is huge power concentration in financial institutions. However, social media has demonstrated the collective power of the individual in their political choices and finance and business are likely the next to experience the power of choice.

So, the mandate for allocating the world’s capital towards sustainability will ultimately come from those for whom the finance industry’s assets are ultimately held and managed, namely individual households in their capacity as customers of financial institutions and corporations. Individuals have the power to make choices for their investments, spending and savings and this a powerful lever as individual awareness and activism increases.

Consumer choices reflect their priorities and preferences, and as such can fund and defund products, services, activities, companies, and entire industries. In the past year alone, global household financial assets increased by US$22.5 trillion\(^4\) representing significant potential pent-up consumer demand. How this money is deployed can make a significant difference to sustainability.

However, households too are only one part of the global economic system prevalent in the world today. As described in the 2020 Capital as a Force for Good report, governments and political systems rise and fall based on their ability to deliver to the aspirations of citizens to increase consumption, businesses work to deliver the products and services demanded, and financial institutions fund them. Every stakeholder is a contributor to this system and everybody – consumers, media companies, resource businesses, manufacturers, trade organizations, politicians, entrepreneurs, and scientists – plays their part in a process that is exhausting the planet’s resources and creating potentially irrevocable damage to its ecosystem, whose negative externalities are exacerbating rather than solving the world’s challenges. They can collectively and singularly make a different choice.
While the most forward-looking financial institutions are deploying capital at scale in response to global challenges and placing increasingly ambitious bets on longer-term breakthroughs, a multi-stakeholder approach is ultimately the solution to resolving differences of view on the mandate and priorities of financiers. Addressing global challenges, that are systemic in nature, will ultimately require solutions that are systemic as well, requiring multiple stakeholders to align on priorities and work together. If households demand sustainable products, and if producers innovate and make these, and if financiers fund their development and scaling, having been empowered by households to do so, then the SDG goals, the transition and the future can ultimately be funded, in partnership between stakeholders.

Financial institutions investing boldly in both short-term survival and long-term thriving during this process are set to have a disproportionate position in their industry and indeed the world at large, providing them with opportunities to emerge as industry leaders in this new world.

**Engagement highlights the finance industry’s ambition to lead**

Since the issuance of the 2020 Capital as a Force for Good report in December 2020, the Capital as a Force for Good Initiative has engaged with major global financial institutions across banking, insurance, asset management, pension and sovereign wealth and hedge funds, as well as a number of development banks and DFIs, on the key findings of the report and the broader issues facing the industry and the world laid out above. This year has seen the beginning of the inclusion of an additional stakeholder in the form of the world's largest technology companies. These provide the platform for billions of individuals to engage in everything they care about. In keeping with the
mandate of the Capital as a Force for Good Initiative, the focus is on those agents of change that can shift capital in the many trillions of dollars towards a sustainable future.

The UN SDGs will not be funded to 2030 without a comprehensive mobilisation of stakeholders. The most powerful in terms of the scale of capital are the individual and the financial institutions, the latter being most often the agent of the former. The analysis and engagements supporting this report confirm the increasingly ambitious actions of leading financial institutions and their growing confidence and commitment to being a force for good, tackling increasingly complex and interrelated challenges such as climate change, biodiversity loss and pollution, and equality and inclusion.

The subsequent chapters of this report examine the details of the industry’s increasing engagement as a force for good and its implications and the role of other stakeholders including major development agencies and major technology platforms and specialist innovators.