Executive Summary

The global coronavirus pandemic has triggered a series of cascading, social, economic, and political shocks over the past 18 months that have revealed the fragility and interconnectedness of the world at multiple levels and as a system too. The pandemic put a spotlight on our global interdependencies and interconnectedness, reinforcing the urgency of meeting the United Nations Sustainable Development Goals (SDGs), and importantly is a red line between a carbon past and a cleaner, more empowered future, demonstrating that there are no borders to stop major issues affecting all. During this challenging period, governments have led in stimulus and leading institutions in the finance industry have risen to the challenges of addressing not only the short-term dislocations from the crises, but also picking up the pace of financing medium- and longer-term global environmental and inclusion challenges, making trillions of dollars of commitments, and mobilizing funding for climate change and the SDGs at an unprecedented scale. However, the challenge of financing the SDGs and the transition to a superior sustainable future remains even greater than previously imagined, pointing to an urgent need for a more holistic approach.

Leading The World to a Sustainable, Inclusive, Superior Future

1. The SDGs need an estimated US$116-US$142 trillion. The funding gap of US$84-US$101 trillion represents a seemingly insurmountable hurdle

   - The global coronavirus pandemic has accentuated the need for social protection for the most vulnerable, and undone years of progress on the SDGs and decades of development advances
   - With less than ten years to go, the world is running out of time to meet the global SDGs
Executive Summary

1. Achieving the SDGs is critical to build the sound base needed for the world to transition well to the emerging sustainable information age, without which risk and volatility will continue to mount.

2. This estimated funding gap represents c.10% of current global GDP, required annually, and therefore closing this gap lies beyond the power of the finance industry, or any other stakeholder, acting on their own.

3. A total of US$200-220 trillion is needed if the transition funding is added to the full cost of the SDGs for a period to 2050, an additional c.US$80 trillion being for the energy transition needed for climate change, which will be greater once other transition costs are added.

2. Failing to fund the SDGs threatens the peaceful transition to a superior future that is sustainable in the information age

- The world has made great development progress in recent decades, with 1.1 billion people lifted from extreme poverty since 1990, and childhood mortality down 60% over the same period, and further gains in life expectancy, literacy, and education.

- Further progress is required, particularly on sustainability and inclusion, with c.70% of the world lacking adequate financial inclusion, and the SDGs reflect the shared agenda for the world to achieve this.

- Failing to seize the opportunity offered by the pandemic to rebuild better using the SDGs as a guidepost will likely create two-tier world development, but the interconnectedness and interdependency of the world ensures that risks and costs will be shared by all, e.g., with 143 million new climate migrants expected by 2050.

- While the transition to the sustainable information age is inevitable, the friction of the transition depends on the ability to deliver sustainable development for all, thereby avoiding the conflicts and crises that could derail it.

3. Finance industry leaders have significantly stepped up their sustainability, development, and inclusion funding, committing US$9.5 trillion to 2030, deploying a record US$2.1 trillion in 2020

- US$9.5 trillion dollars in SDG funding commitments to 2030 have been made by the top institutions for deployment.

- US$2.1 trillion of capital was mobilized in 2020 for sustainability and inclusion linked investments, c.US$1 billion dollar of which was financed by the top 10 leading institutions.

- 44% of total current spending is focused on climate change and related goals, while climate change represents only c.20% of the overall SDG funding requirement.

- 32% of actual current funding by finance industry leaders is in support of funding human, economic, and social SDGs, which represent almost half of the overall funding need.

- The majority of capital is focused on advanced economies given their geographic focus and mandates, despite the current funding shortfall being in developing countries.
4. The world has c.US$400 trillion of gross liquid financial assets, c.64% is owned by individuals, and more than 85% is managed or allocated by financial institutions

- The SDG funding gap is far beyond the ability of any one stakeholder in the financial system to fund and requires a multi-stakeholder effort, and the funding need will keep rising as more industries transition
- The finance industry manages or allocates more than 85% of gross liquid assets globally (c.US$350 trillion), and although its degree of control over the assets it invests varies, it clearly has a key role to play
- Individuals, who collectively own 64% of gross liquid assets (US$255 trillion), and represent over 80% of global consumption, are a key determinant of success
- Governments, including central banks, control c.36% of gross liquid assets (US$143 trillion) and have a critical role to play in policy shaping, as well as direct funding.
- Corporations (non-financial) directly control over US$156 trillion in total financial assets and are a key stakeholder but are themselves owned by individuals, financial institutions, and government shareholders. The value of this US$156 trillion is therefore largely reflected in the value of the shareholders assets (which total US$400 trillion).

5. A series of major global shifts are underway and these point to the need for a strategic and integrated multi-stakeholder approach to meet the SDG goals

- The global context is shifting to a very different scenario, changing everything from geopolitics to the role of the individual, with concurrent shifts to the information era from the industrial one, the rise of four power blocs from one superpower, the overuse and likely exhaustion of easily available natural resources, and a population of nearly 10 billion by 2050 fully interconnected by internet media
- The funding of the world’s challenges is a multi-stakeholder responsibility. Governments, individuals, philanthropies, NGOs, and the private sector need to help fund the transition, alongside financial institutions
- The financial hubs of the US, China, EU, and later India, will be the most powerful arbiters of what gets financed between now and 2050, given that between them they account for 68% of the world’s market capitalization, 63% of global GDP, and 45% of the world’s population, making their alignment on financing the SDGs critical
- Individuals acting collectively have proven to be a powerful and disruptive force in politics and have the potential to change the flow of capital too and are critical to supporting the SDGs through their individual choices as consumers and investors
- Technology companies provide platforms to half the world’s population, that can be used for collective action and give these individuals extraordinary power in politics and social movements, which will likely occur in finance and business too
The next generation of specialty fintech solutions are solving neglected and intractable problems outside the scope of the finance industry’s current focus.

Development finance institutions and multilateral development banks as the original force for good institutions face the imperative to scale and given their relatively constrained capital will need to partner with the private sector, helping them to address the challenges of investing in countries, sectors and projects struggling to comply with increasing ESG requirements.

The finance industry has the opportunity to take a leading role in building a multi-stakeholder approach to funding the goals given its preeminent position in the financial system and faces a number of risks should it fail to do so.

6. The case of capital being deployed as a ‘force for good’ is associated with up to 8x outperformance for the most engaged companies

- 100% of leading financial institutions have adopted ESG considerations and 95% have integrated ESG into core business processes. The majority are driving the defunding of civilian firearms, child labor, coal mining, tobacco, and are promoting behaviors related to climate change, human rights, diversity and inclusion, biodiversity, community, data privacy and cybersecurity and fair labor practices, with c.US$33 trillion of managed assets now fully ESG integrated.

- 93% are committed to a multi-stakeholder approach, 95% are enhancing diversity, 85% see their employees as key stakeholders with engagement programs in place.

- 97% of leading financial institutions work with peers and international organizations through various forums and 60-80% are members of UN-PRI, TCFD and CDP, moving the industry to a common set of standards that drive greater transparency and disclosure in ESG and sustainability financing.

- 86% are supporting the Paris goals, with US$88 trillion of assets committed to net zero by industry leaders.

- Doing good is correlated to returns, with the most advanced financial institutions in this report generating c.8x greater returns to shareholders over the MSCI world financial index over a five-year period to 2021.

- Overall, we have seen 5.7x greater returns to shareholders for all ‘force for good’ financial institutions over the same index.

- The superior performance of ‘force for good’ organizations is differentiated and multidimensional. They are better run companies, able to attract and retain more diverse and more productive talent, with more resilient systems and processes and business strategies that position them to capitalize on high growth opportunities, and with innovative products and services that differentiate them from their competitors.
The SDGs, the Transition, and a Superior Future Need to be Funded as Investible Opportunities for Capital to be Deployed at Scale

Achieving the SDGs and net zero carbon emissions are crucial parts of the long-term global transition to the sustainable information age, a transition that is broader and will define the global flow of funds and the creation of value for decades to come.

Deploying capital to fund the current world platform, the transition and key elements of the future requires a multi-stakeholder alignment, and this will likely not be mobilized at the scale required as a charitable endeavor, or one funded by governments through taxes, or one undertaken at losses. Hence, the requirement is to fund investment themes where profits are made at sufficient levels to reward bold action and risk taking, allowing for re-investment in the future, while providing for employment, taxes, social security, and pensions today.

The macro investment themes, indicating the scale of challenge and ambition required, whose funding will determine the shape of this global transition include:

I. **Closing the SDG Funding Gap**, investing US$116-US$142 trillion, with a current shortfall of US$84-101 trillion, over the next decade, with major financial institutions partnering with other stakeholders to adopt the SDGs, particularly the most neglected

II. **Mass Scaling of Existing Green Energy Solutions**, replacing the 83% of global energy still generated by fossil fuels (beyond net zero, representing a replacement of the current infrastructure to net negative)

III. **Regeneration of the Environment and Ecosystem**, renewing the 25% of global land that has been degraded and cleaning cities and industries (enhancing the SDGs by also renewing urban and industrial environments)

IV. **Global Digital Participation and Inclusion**, providing inclusion to the over three billion people without internet access (a universal project beyond the agreed SDG goals of access to move forward together)

V. **Mass Education and Skill Development**, providing mass education, skills and better awareness and mental resilience using digital platforms to break the boundaries of location and local restrictions (a move beyond education to a more inclusive, aware, and resilient population)

VI. **Mass Financial Inclusion**, providing financial access and services to the 67% of the world’s population that remains un- or underbanked (beyond basic bank accounts to meaningful inclusion in the financial system)

VII. **Resilient Healthcare and Social Security Systems**, caring for the 3.9 billion people lacking access to critical healthcare services (recognizing universal health and social security as a basic human right)

VIII. **Stakeholder Aligned and Resilient Companies**, influencing the priorities of the 99% of global companies not yet fully aligned to the SDGs (reflecting the resilience that comes with
businesses that are relevant to the values of sustainability in the world, and ready to tap the US$12 trillion business opportunities associated with the SDGs⁸

IX. **Reimagined Urban Life**, creating sustainable living for the 2.4 billion new urban inhabitants by 2050⁹ in the face of migration within and across boundaries (beyond 2030, reflecting the rise in urbanization)

X. **Mobilizing the Individual**, shaping the flows of US$49 trillion of annual household spending globally as the individual becomes a responsible consumer and investor (reflecting the growing awareness and power of the individual as a collective and potential force for good)

XI. **Food and Water Security**, increasing global food production by 70% to meet rising demand by 2050, providing safe, nutritious, and varied food for 9.7 billion people (turning low productivity arable land into industrial scale yield while maintaining farmer ownership)

XII. **Radical Energy Breakthroughs**, enabling a step change in human civilization with energy sources that breakthrough in functionality, while being clean, affordable, reliable, and abundant (funding the future energy for a new civilization)

The SDGs as fundable investments combine the idea of financial and non-financial returns, not as a trade-off but as a requirement for each, rewarding risk taking and execution with value. Such a conception can be funded, and given the vibrancy of the global financial system, will be pursued by the private sector. The success of that requires consumers, individual investors, scientists and technologists, corporates, governments, and development finance to support it too.

The benefits of financing the SDGs through such investment themes goes far beyond the immediate financial gains that they will accrue for the funders, holding the promise of a stable transition to a world of humanity without extreme hunger, illiteracy, avoidable diseases, poverty, and countless unnecessary deaths and renewed by working together as an interconnected and interdependent whole.

**The Way Ahead and its Implications, A Summary**

The fact that the world faces an existential threat is now well understood, thanks to the efforts of the UN and the many others across the world working on the front lines of addressing the issues facing the world and speaking to this challenge.

The call to action has been heeded and the private sector is mobilizing resources with increasing speed, with the finance industry leading in the allocation of capital, recognizing that its current mandate is limited predominantly to stewardship on behalf of the ultimate owners of this capital.

Closing a funding gap of nearly US$100 trillion to 2030, representing GDP allocations of c.10% every year, will not be possible without a new understanding between all stakeholders.

Achieving this objective will require not only more funding but also a broadening of investment portfolios to place far greater emphasis on investments in people and human security by direct investments in the social inclusion, education, welfare, and well-being of human beings.
Governments, companies, and individuals (and many others) would need to align not only on the actions but also on the consequences of the actions required to address the challenges, including the political, social, and economic consequences, particularly in wealthy countries.

The benefits to all are clear but short-term costs will need to be managed with stakeholders by visionary leaders, in all walks of life.

For financial institutions, this is their potential moment in history to fund big changes and big ideas, taking big risks. And the smartest and most advanced financial institutions that lead the way will generate the greatest returns and have the greatest chance to endure as consequential financers of the transition to the future, renewing their role and commitment to people and planet as a whole.