The UN's Sustainable Development Goals (SDGs) and the financial sector: CDC's experience

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Abstract:
The UN's Sustainable Development Goals (SDGs) provide a universal approach to what Caisse des Dépôts (CDC) refers to, in the French tradition, as the "public interest". This framework adopted by the international community provides CDC, as a public financial institution, with an opportunity to develop its own evaluative culture of its socio-economic impact. CDC's role also entails creating innovative financial instruments permitting private-sector financial players seeking social utility to fund SDGs.

As an institutional investor, CDC has a long-standing and stringent responsible investment policy. As a public bank, CDC provides financing for national priorities: social housing, infrastructure, businesses, etc. Moreover, this contribution to sustainable development is part of its legal mandate. So it is only natural that CDC's actions fit into an SDG framework. But CDC's SDG commitment goes even further than this simple statement of fact. For CDC, what makes the "Sustainable Development Goals" innovative lies in the term "Goals". The SDGs are an incentive for CDC to make its sustainable development contribution more visible. Acting as a catalyst, CDC also hopes to encourage financial players to ramp up financing for SDGs.

Connecting the purpose of CDC's actions with universal goals

Few recent UN initiatives have been as successful as the SDGs. According to Anne-Catherine Husson-Traore, the CEO of Novethic, the reason behind this success is that "through 17 goals backed by 169 targets, the SDGs provide a very clear, tangible framework describing what the international community regards as a desirable future". The SDGs' strong appeal for financial players may seem more surprising, as these players still generally consider that they should maintain an unbiased approach to growth and development models while performing their role of financing the economy. However, over the past few years, due mainly to increasing awareness of climate risks, these players have begun to recognise their own responsibility in the need to channel funding into a low-carbon growth model. Their strong involvement – combined with the methods and various tools that they have created in a short span of time to incorporate climate action into their business model – shows that they can put forward strictly financial responses to the low-carbon challenge. Moreover,

English version: Translation Centre of the French economy and finance ministries

following the 2008-2009 financial crisis, financial players are seeking to restore their legitimacy. Thus, the SDGs arrive at the right time to provide this political vision that the financial sector is generally reluctant to build and endorse on its own.

According to research by Novethic,[1] referring to the SDGs can narrow the gap between socially responsible investment (SRI), which is primarily a risk measurement instrument, and impact investing, understood in broad terms as an investment strategy that actively seeks to achieve both a financial return and social and/or environmental objectives. As such, investors commit to measure and report on the social and environmental performance of their investments. As they enable a selection of goals and measures to attain those goals, SDGs are becoming the preferred impact investing analytical framework for building and tracking metrics of social outcomes and contributions to trajectories. This is obviously the case for the issue of climate change, but it can also be applied to, or combined with, other SDGs, such as those involving water, energy, health and well-being, education, or the fight against poverty and inequality.

Similarly, CDC has developed a strategic plan to accompany French society throughout four major transitions, namely: the ecological/energy, territorial/regional development, demographic and digital transitions. By comparing this strategy with the SDGs, we note that it contributes directly to France’s goals in terms of good health and well-being (SDG 3), quality education (SDG 4), affordable and clean energy (SDG 7), decent work (SDG 8), industry, innovation and resilient infrastructure (SDG 9), sustainable cities and communities (SDG 11), and climate action (SDG 13).

Indirectly, as an institutional investor with a very strong SRI commitment, CDC can make a positive contribution to SDG 1 (no poverty), SDG 5 (gender equality, notably in corporate governance), SDG 6 (clean water and sanitation), SDG 12 (responsible consumption and production), and SDG 16 (peace, justice and strong institutions). Since 2015, CDC has tracked the climate action performance of a growing proportion of its portfolios (SDG 13).

Through some of its subsidiaries, CDC also provides solutions for the environmental quality of land and water resources (life below water, SDG 14, and life on land, SDG 15).

Lastly, in its internal operations, CDC is endeavouring to improve its performance on SDG 5 (gender equality) and SDG 8 (reduced inequalities). The only goal on which CDC has less leverage is “zero hunger” (SDG 2).

To quote Héléna Charrier, Responsible Investment Project Director at CDC: “It is important for Caisse des Dépôts to be able to connect the purpose of its actions with universal goals, and to begin to describe more clearly its contribution to the SDGs, or in other words, its contribution to the public interest.”

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(1) “Les investisseurs en quête d’impacts. Stratégies, innovations et défis”, Novethic, July 2017, available online at: http://www.novethic.fr/

This process is beginning at CDC. It requires quantitative impact metrics to be set up. For example, CDC's financing for social housing, via the savings fund, undoubtedly makes a strong SDG contribution. Yet CDC's evaluative culture of its social and environmental impact is fairly young, and this contribution is not fully measured at present. In particular, CDC is lagging behind development banks. It has made the most progress in its private equity activities, both at the CDC group level (within its institutional investor portfolio) and especially at its subsidiary Bpifrance (specialised in financing companies). For example, the CDC group sends a simple questionnaire to fund managers, and indirectly to the portfolio companies, in order to gather data annually on the number of jobs created, carbon emissions, gender equality, compliance with certain environmental labels, etc. While not directly prescriptive in nature, this reporting process has an impact by encouraging portfolio companies to build policies in these areas.[2]

In early 2017, the issuance of its first green bond was an opportunity for CDC to develop impact metrics in other sectors that it finances (e.g. real estate, renewable energy and environmental remediation) so that it could fulfil its reporting commitments to bondholders.

In addition to the SDG contribution of its traditional activities, which it will now measure with greater precision, CDC is also endeavouring to create innovative, high-impact financial instruments in order to raise the involvement of private financial players in SDG financing.

Provide more financing for SDGs: CDC as a catalyst

In a report published in 2016, Guido Schmidt-Traub, Executive Director of the UN Sustainable Development Solutions Network (SDSN),[3] explains that different SDGs have different funding needs and must call on varied financing solutions. For example, healthcare and education will mainly tap public funding sources, whereas the private sector can more easily fund infrastructure projects and environmental goals. According to Schmidt-Traub, one thing is certain: achieving the SDGs will require substantial funds from the private sector, both in developing countries and in developed ones. Nevertheless, public financing – on a proportionally smaller scale – will continue to play a crucial role.[4]

Schmidt-Traub's analysis echoes that of the major institutional investors focusing on the SDGs. This is notably the case for Dutch pension funds, which came together to draw up a list of several conditions for mainstreaming "SDG Investing".[5] The first condition is greater collaboration between the public and private sectors to create blended funding instruments. Thus, they call for a strategic use of public funds, which – according to the OECD's definition – act as a catalyst by reducing risks and improving returns for private investors, on one hand, and drive additionality, on the other hand, by enabling investments that would not have been made otherwise.

[(2)] Caisse des Dépôts (2015), Social Responsibility Report: http://www.caissedesdepots.fr/rapport-rse-2015
[(3)] Guido Schmidt-Traub, "Funding the SDGs", http://www.sustainablegoals.org.uk/funding-the-sdgs/ March 2016.
[(4)] Building directly on the conclusions of the third International Conference on Financing for Development, held in Addis Ababa, Ethiopia, in July 2015.
[(5)] "Building Highways to SDG Investing" (2016), https://www.sdgi-nl.org/report/

CDC can achieve leverage by bringing private financial players into contact with fields of activity, companies or projects needing funding that are close to meeting market conditions. More specifically, it can structure funds and design the impact analysis.

Through several innovative financial instruments, the CDC group already offers social impact financing to its co-investors.

The NovESS Fund: co-investing in the social and solidarity-based economy in France

In November 2016, CDC launched NovESS, a private equity fund that invests in companies in the social and solidarity-based economy sector (ESS in French, hence the fund's name), whose clear aim is economic and social performance. The NGOs, mutual societies and commercial firms in this sector make a very direct contribution to SDGs. "While the social and solidarity-based economy is growing rapidly, it suffers from both a dearth of capital and high debt levels that hamper its expansion", according to Véronique Vincent, Project Director at CDC. In parallel, private-sector financial institutions and long-term investors seeking social utility and legitimacy are eager to invest in the social and solidarity-based economy. By creating NovESS, CDC helps match investors with financing needs. The first closing of the fund at €60m involved CDC, as the fund sponsor, along with BNP Paribas and various other investors. NovESS will provide its investors with an impact metric that uses a methodology derived from joint discussions between the fund sponsors and investment advisory firm Le Comptoir de l'Innovation. This joint method, known as Mesis (an acronym for "Measuring and Tracking Social Impact"), is currently in a test phase and will be applied to the fund's first investments in 2017. The assessment framework covers seven areas: environment, fighting poverty, favouring equal opportunities, access to education, healthcare and housing, preserving autonomy and, lastly, access to jobs (which is the key metric). This framework will be used to select investments, as well as to encourage investee companies to refine their strategic steering. Lastly, each year, the investors will be able to include the performance metrics in their extra-financial reporting. Along the same lines, CDC has also invested in the first social impact contract[6] in France, alongside Adie,[7] the French government and four co-investors, to help people living in isolated rural areas obtain microcredits to start their own businesses or find salaried employment.

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(6) Social impact contracts are an innovative financial instrument whereby a social player can obtain financing for a prevention programme from a private investor. The latter is only reimbursed by public authorities if the project is a success.
(7) Adie is a non-profit organisation that provides microcredits to business creators: https://www.adie.org/

CDC-AFD: creating an infrastructure investment vehicle

The CDC-AFD infrastructure investment vehicle (which will primarily invest in Africa), currently in the structuring phase, will rely heavily on the expertise acquired by the French Development Agency (AFD) and its subsidiary Proparco on SDG-based impact metrics. This vehicle will give priority to investments with climate co-benefits. Even the social impact – which appears harder to evaluate for this asset class – may be monitored. For example, with regard to gender equality (SDG 5), if the fund finances a public transport infrastructure project, the investors will look at whether the important issue of women's access to this public transport mode is facilitated thanks to tangible measures to improve security. Likewise, investors will be able to weigh in on health-related measures (good health and well-being, SDG 3) on construction sites, etc.

Groupe SNI: a social impact bond to finance emergency shelter

Another example comes from Groupe SNI, a property management company and another CDC subsidiary. In March 2017, Groupe SNI launched a €200m fund backed by a pool of six institutional investors and the Council of Europe Development Bank (CEB). Over a span of two years, this fund will finance 10,000 new beds in emergency shelters managed by Adoma, according to requirements set by the French government. Subscribers to the fund will purchase social impact bonds: investor remuneration is partly linked to the attainment of social goals, such as the number of individuals assisted in obtaining permanent housing, the proportion of children attending school, etc. The level of achievement on these goals – which contribute to SDGs 4, 10 and 11 – will be assessed annually by an independent outside auditor.

Conclusion

The Sustainable Development Goals have the ambition of establishing a universal vision of human progress. Yet isn't there a risk of cacophony? The financial players that decide to adhere to the SDGs must often build impact metrics from scratch. As we have already seen in the climate finance sector over the past few years, there is a high risk of approaches and metrics becoming fragmented. This would make it impossible to track, compare and compile information, with companies "drowning" in overlapping reporting requirements. For the sake of coherency, CDC is committed to cooperating. For example, the analytical framework and social impact metric for the NovESS fund will eventually become shared instruments for the entire marketplace. This is also why CDC actively contributed to FSB-TCFD[8] and was one of the founding signers of the UNEP FI's Principles for Positive Impact Finance in 2016.[9] Lastly, CDC endeavours to apply current best practices of AFD and, more broadly, the other financial players that support the Principles for Mainstreaming Climate Action into Financial Institutions.[10] In this way, it can also contribute directly to SDG 17: developing partnerships for the Goals.

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(8) The Financial Stability Board's Task Force on Climate-related Financial Disclosures: https://www.fsb-tcfd.org/
(9) UNEP FI 2016: http://www.unepfi.org/positive-impact/manifesto/
(10) Climate Action in Financial Institutions: http://mainstreamingclimate.org/