

Building Sustainable Markets

An Initiative of HRH The Prince of Wales

Responding to increasing investor and consumer demand for sustainability

A critical decision

We stand at a critical juncture. Behind us are some 50 years of dramatic and unprecedented progress in human indicators: Never in human history have so many people been lifted out of poverty; life expectancy has increased to record levels; infant and maternal mortality have fallen; more girls are attending, and staying in, school than ever before; and inequality between nations has narrowed. On so many levels, ours has been a market system that has served us well. But deep fractures in the system are beginning to show. Unless we act now, the price for all this progress may prove much too high, ultimately driving us backwards.

And what has been this price? A gaping inequality that has increased dramatically within almost all countries. And income inequality is not the only byproduct of today's progress. We see record environmental degradation, loss of species at unprecedented rates – last estimated at 200 species a day – severe stress on food systems and on water, massive deforestation and the collective impact of irreversible climate change. This is the “new normal”, where short-term interests have eclipsed long-term value. Today, our markets are *unsustainable*. We need a new economic model.

A new economic model

Imagine if we could take those benefits the market system has given us and mitigate the downside risks. Imagine if the financial system could become part of the solution. Imagine if corporates focused as much on consumers, workers and society as they do on shareholder value. Imagine if the international development community could work *together*, pooling their activities, to support the rule of law, good governance and investment in developing economies. Imagine if consumers had the ability to easily exercise choices that make sense for people and the planet. Imagine if governments and business focused on long-term outcomes that serve future generations, with the harmony of people and nature at the core. Imagine if, instead of just GDP, we measured human happiness, natural capital health, elderly loneliness and community resilience.

The good news is that hearts and minds are changing. Ten years ago, many of these ideas were seen as marginal at best or dangerous at worst. But consider the following: A recent survey of chief executive officers found that 90% consider sustainability important to their companies' business success; a growing number of top business schools worldwide now have courses on sustainability, business and society. Globally, it is estimated that the market for sustainable household appliances – responding to consumer demands – is now \$546 billion. Boston Consulting Group estimates that, today, \$23 trillion of assets under management worldwide are in funds focused on environment, social and governance criteria (ESG). Perhaps most importantly, behavioural economists now believe that the entire premise of classical economics – that people will always act in their own self-interest – is wrong.

Increasing numbers of millennials, business leaders and women are now calling for a new kind of market: a **sustainable market** – inclusive, equitable, green and profitable where sustainable principles drive growth; a market that will generate long-term value across society through the integration and balance of natural, social, human and financial capital. Sustainable markets help to drive systems-level change by focusing on consumer demand, disruptive innovation, sustainable alternatives and enhanced partnerships between the public and private sectors. They can also promote “blue ocean” opportunities to help fuel the economy of the future.

There are dangers as well as opportunities here. The danger of greenwashing, or impact-washing; the danger that public relations becomes a substitute for meaningful action; the danger that disconnected piecemeal initiatives fail to deliver scale or critical mass; the danger of unintended consequences – that incentives or tax regimes work not to deliver a purposeful capitalism but undermine the end we hope to reach.

Alignment and metrics must be our watchwords. We must take the plethora of initiatives and separate measurement systems and work towards integration and scale – filling gaps, exploiting

opportunities and creating *universal* metrics against which to measure progress. Along with alignment and metrics, we must transform accounting and transparency. Economic, natural and social capital must be aligned and integrated into business and financial systems. Without a proper accounting of natural and social capital costs, market as well as societal risks will continue to be improperly priced and new market opportunities will be squandered. With it, we can begin to align prices, incentives and consumer choices to bolster sustainability.

To move towards **sustainable markets**, we have identified three broad areas of practical action:

1. A dramatic shift in corporate business models
2. An aligned, incentivized and mobilized financial system
3. An enabling environment that attracts investment and incentivizes action

A dramatic shift in corporate business models

Over the past 10 years, attitudes to the role of business in society have changed dramatically, not least within boardrooms and C-suites. Some of this is undoubtedly due to issues of brand management and reputational risk, now extending to supply chains, but some of it signals both a response to consumer preferences and, related to this, a more recent recognition that sustainably run businesses are better positioned to secure financial returns. And there are business opportunities here, too. Recent estimates suggest that the UN's Sustainable Development Goals (SDGs) present \$12 trillion in opportunities for business in both revenue and savings. The task now is to move beyond corporate social responsibility as a business add-on towards mainstreaming sustainability in business strategy, structure and activities. There are several important initiatives in this area, including efforts to align with the SDGs, but universal measures to transparently assess progress and define goals are lacking. We believe global standards and sustainability labelling will be game changers, giving clear guidance and accountability to management teams as well as verifiable information to markets, consumers, investors and employees as they seek to make sustainable choices.

An aligned, incentivized and mobilized financial system

In the wake of the 2008 financial crisis, many saw our entire financial system as part of the problem. We believe that, with reform, it can be part of the solution. Yet without a financial system fit for purpose, many of these opportunities will never be seized. In 2015, at the UN Financing for Development Conference held in Addis Ababa, there was a consensus on the need to support the SDGs by using private finance to turn billions into trillions. None of these hopes have been realized. Official development assistance is declining, with foreign direct investment falling by as much as 30% according to the OECD. Even where financing has occurred, it is all too often unsustainable. It is time for a new approach. We must address flawed pricing systems in capital markets that result in their relentless allocation of capital to short-term unsustainable uses. We need financial regulation and reporting that integrates sustainability, with global standards and mandatory disclosure. We must move from funding development projects to putting in place an enabling environment for investment, both domestic and foreign. That means being more innovative about de-risking, guarantees and blended finance. Instead of working on separate portfolios and projects, multilateral

development banks should come together to support country-led programmes and country platforms, helping to create a climate for sustainable business and investment.

An enabling environment that attracts investment and incentivizes action

What governments do – and don't do – is critical. Incentives can attract or repel investment; taxes can favour or suppress energy choices; information, such as in food and product labelling, can win or lose customers. All of these levers need to work together and use market mechanisms to support a shift to sustainable stakeholder capitalism. Some countries are already taking innovative, joined-up action to align subsidies, taxes and information transparency to support sustainability and the SDGs. But much more can be done to end perverse subsidies regimes, as are too often seen in agriculture, fisheries and fossil fuels. And governments are not alone in their capacity to shift incentives and create new norms. Consumers have power too – power to persuade boardrooms and cabinets to rethink policies and re-examine bottom lines. As citizens and consumers, controlling an estimated 60% of global GDP, we can change the market and can inform policy. Purchasing power, consumption decisions, investment decisions and decisions about the health and safety of the planet can support sustainability – or they can undermine it. Already we see millennials making choices about lifestyle and consumption that look different. And, to prepare the next generation, our education systems must also be re-imagined with a sustainable future in mind.

Above all, action

As we pause to reflect on our trajectory, we must recognize that we have a choice – a choice to continue on our current path or shift to a more sustainable one. This choice brings with it immense opportunity: to put people and planet at the heart of global value creation; to create new markets and technologies; to explore moonshot innovation and disruptive solutions for our most intractable challenges; to develop new partnership models that deliver more rapid and sustainable results; and to ensure that human aspiration can be sustained for millennia to come.

Choosing sustainability does not require us to sacrifice profit but asks us to broaden our assessment of capital, assets and their value while exploring how to optimize for wider global and future benefit. As demand for sustainability increases, remaining competitive will hinge on the ability to demonstrate contributions to, and alignment with, sustainable goals. Incremental steps will not get us to our destination. It is time for bold leadership and determined action. Each one of us has a role to play – we must simply decide if we will be early adopters or the late majority. Critically, to move forward at pace, **we need a sustainability revolution – rooted in purposeful capitalism and sustainable markets – and we need it now.**

Contact

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