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MARKET INSIGHT

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“Investment requirements are huge, with annual funding shortfalls at more than USD 1.7 trillion”

THE IMPORTANCE OF THE SOCIAL IMPACT OF OUR INVESTMENTS

The world faces many challenges: the increase in geopolitical conflict causing massive migration and destabilising access to agricultural materials and energy sources; a demographic explosion in certain developing countries; difficulties providing access to education for all; inequality, unemployment and poverty.

According to the UN, 1.2 billion people (15% of the world's population), live on less than one dollar a day and 4 billion (61% of the world's population) live on an income of \$365 to \$3,000 per year¹. Finally, and perhaps most urgently, climate change is leading to rising sea levels and an increase in the number of natural disasters that will disrupt nature and biodiversity. These challenges will have consequences in years to come, notably generating new social tensions. Our activities have increasingly profound and global implications that impact the planet, the oceans, our climate, our cities and surely our lives.

WHAT CAN WE DO TO START THE CHANGE?

The work carried out by governments, development aid organisations and NGOs contributes significantly to this. However, this is not enough. We need to move up a gear because time is running out. Investment requirements are huge, with annual funding shortfalls at more than USD 1.7 trillion, according to OECD estimates². The private sector's involvement in these changes is obvious: impact investing is one of the responses needed to address these issues to foster the emergence of a low-carbon and more socially inclusive economy. Impact investors target companies whose business models are based on sustainable technologies, affordable

healthcare, fair education, responsible agriculture, consumption and clean energy. For example, Norway-listed Scatec Solar provides solar power at attractive prices. As a result, it has a double positive impact, on the climate and on disadvantaged populations. This company is present in many countries where a segment of the population is poor, including Rwanda, Mozambique, Egypt, South Africa and Jordan. In 2021, it generated revenues of more than €470 million and income of €29 million³. Its work is recognised by the World Bank and many development banks.

HOW CAN WE GUARANTEE OUR INVESTMENTS HAVE A REAL POSITIVE IMPACT?

While it is essential to better measure the impacts of our investments on climate change through CO₂ or methane emissions, it is also becoming necessary to measure their impact on society, nature and humans. Tools, databases and accounting standards are gradually improving. The International Sustainability Standard Board (ISSB) in the US and the European Financial Reporting Advisory Group (EFRAG) in Europe are helping to improve the quality of company data. Several players are also changing the game, such as the Global Impact Investing Network (GIIN) with its IRIS+ method, the UN with its SDG Impact Standards, or the World Bank and the IFC with their principles for impact investing, ratified by more than 150 asset managers⁴. Finally, regulations need to improve, as the market is not always able to self-regulate. Labels and new laws need to be introduced, such as the new European taxonomy, the Sustainable Finance Disclosure Regulation (SFDR) adopted in 2021 and applicable to banks, or the new rules introduced by the successive COPs.

Switzerland is one of the leading countries in social impact investing, with a genuine ecosystem: the UN's European headquarters, specialised international organisations, NGOs, foundations, players in microfinance and impact investing, private banks, wealth managers and institutional investors. The challenges posed by sustainable development, particularly climate change, the preservation of nature and respect for human dignity, will change the way we invest, in Switzerland, in Europe and in the US. Social impact investments, based on analysis incorporating long-term objectives, are a necessity over the coming decades. They are not a fashion, but rather an awareness of everyone's responsibility. We are all involved in this change regardless of our position in our company or our organisation. Even if we have the impression that what we are doing is just a drop in the ocean, together, these drops can form oceans.

¹ Source: Sustainable Development Report, United Nations, 2021 <https://www.un.org/sustainabledevelopment/poverty/>

² Source: OCDE, Measuring Distance to the SDG Targets, 2020 <https://www.oecd.org/newsroom/covid-19-crisis-threatens-sustainable-development-goals-financing.htm>

³ Source: Scatec, Annual report, 2021 https://annualreport2021.scatec.com/wp-content/uploads/sites/10/2022/03/Scatec-Annual-Report_2021-.pdf

⁴ Source: IFC, Operating Principals for Impact Management Signatories, 2022 <https://www.impactprinciples.org/signatories-reporting>



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