CONSIDERATIONS FOR: “MAKING MARKETS WORK FOR SDG PURPOSE” IN A DUTCH CONTEXT  
(by: Herman Mulder, 5 July, 2020)

1. An Age of Consequences. Disturbances and Disruptions:

We live in a Volatile, Uncertain, Complex and Ambigue (VUCA) world: combined population and welfare growth worldwide and the way we run our economies are major contributing factors to today’s unsustainable reality. We use our natural capital well beyond what our planet can sustainably provide (causing accelerating climate change, biodiversity loss, pollution, plastic waste, resource depletion). We tolerate continuing, or even increasing inequalities (social, economic and digital divides). We face geo-political fragmentation and decoupling (“exits”, strategic rivalry, trade wars, de-globalization, regional military conflicts) and local societal disturbances (social strife, migration). Disrupting technological innovations further complicate our existing ecosystem, as major drivers of fundamental change in the way we live and work as citizens, consumers and workers. Conflicting interests and views on how to address these cumulative issues are causing rising tensions, conflicts, polarization and “fabulism”, and are becoming major societal de-stabilizers, including in general elections to come (in NL: March 2021).

2. Socio-economic Reset Needed, Urgently:

The aforementioned forces may further erode some fundamental features of our society: the “trias politica”, the rule of law, trust in democracy, and confidence in its governing institutions. Official (post-) Covid-19 stabilization and recovery programs are financed by ever increasing public debt, further mortgaging the future performance of our economy. Businesses (the supply side of the economy) and consumers (the demand side of the economy) have imploded during the pandemic and will remain for quite some time uncertain and risk averse, which leads to economies not recovering and a positive outlook seems remote. With this reality in mind and within these limitations, we need to create collaborative (SDG# 17), smart, budget-efficient, outcome-effective solutions, addressing social (inequality), environmental (climate, pollution) and economic (employment, circularity) issues. To reignite a sustainable economy a well-directed set of incentives needs to be put in place.

3. Gigantic Market Failure:

Markets (as the relational and transactional place for exchange of ideas, products and services) are not efficient and are blind to our “desired state of society”: the “invisible hand” is like the emperor without clothes. On investment decisions, the wealth of information available is bountiful, yet unstructured, not comparable, and a-symmetrically available. Traditional methodologies for product prices and asset-valuations are misleading (eg. not including externalities or the values, cost and benefits of other forms of capital than financial capital, such as natural, social, human capitals. GDP and IFRS/GAAP are
measures of economic achievement unfit as guidance for long term, sustainable, future-fit policies and strategies. For auditors to help save the world, they will need to redefine their scope of work (verifying beyond financial capital and becoming sensitive for sustainability impact) and strengthening their crucial role in promoting all-important disclosure of material, evidence-based information (to any stakeholder, including society), so critical for well-functioning markets.

4. The North Star: SDG Compass and ESG Baseline:

The generally accepted common compass for “the world we want” are the aspirational, global, “doing good & well” 2015-2030 UN Sustainable Development Goals (SDGs), conditioned by the normative “do no harm” ESG baseline (as reflected in, inter alia, the OECD MNE Guidelines and de UNGPs). Policies by governments, and strategies and interventions by business need to be tested against these comprehensive and global aspirations and standards. As with the Covid-19 virus, collectively applying sound standards and following guidelines in our self-interest will flatten the curve of harm and loss and even ultimately eliminate injustice, degradation and pollution in a much more sustainable, prosperous and peaceful “one world”. The 2017 BSDC “Better Business, Better World”-Report identified the tremendous opportunity for business by the SDGs, with additional $12trln p.a. by 2030 in 4 “hotspots”: Food & Agriculture, Cities, Energy & Materials, Health & Wellbeing. However, without new, co-created, coherent, focused legislation and policies to facilitate business including the financial sector) to realize this “promise”, as well as to “crowd-in and help out” the incumbents of “industries of the past”, the skeptics and the laggards in support of such a transformative, opportunity agenda, we cannot realize this ambition.

5. Complacency, Resilience and Black Swans:

The Covid-19 pandemic was not a “black swan”. For some it was a predictable (and predicted) eventuality: the question being not if, but, rather, when. The real “black swan” was our total lack of preparedness for such danger. Our quest for cost efficiencies have compromised our resilience. We became too complacent about a surprise-free future or too focused on only one threat from nature: climate change (and biodiversity). Illustratively, the World Economic Forum, in its 2020 Global Risks Report presented in Davos in January (with major attention for “green”), “infectious diseases” were plotted only in the “high societal/low business”- risk/impact category. The late and chaotic official emergency responses (notwithstanding reference in SDG# 3) have caused unnecessary victims in many countries and economic damage beyond repair. Late recognition and underwhelming responses have proven to be very damaging for people, disruptive for the economy and expensive for governments. But it should also be recognized that focusing, as government or business, on a limited number of the 17 SDGs (as sweet spots) does not justify ignoring the other ones: eg. climate action (SDG# 13, 7) is important, but loss of biodiversity (SDG#14, 15) and human rights (SDG# 10, 1, 2, 3, 4 5) and circularity (SDG# 8,
12) equally important and interconnected in the comprehensive nature of the SDGs. The pandemic has reinforced the need for the full implementation of the SDGs.

6. Multiple Gaps to Be Closed:

Apart from the lack of public health resilience, the pandemic has exposed us also to a number of other major gaps: (1) an international governance & leadership gap: lack of global cooperation through institutions and shared policies; (2) an equity gap: an increasing financing imbalance with all current programs financed by public debt, bringing the average Public Debt /GDP ratio to well over 100% (the earlier sustainable EU norm was 60%), further mortgaging the future in an uncertain, fragile world with already highly indebted public (further limiting the fiscal space) and private sectors (including households); a next global financial crisis in the making (Monday 10 October 2022?), triggered by inevitable higher inflation and interest rates; (3) a humanitarian gap: the economies in the global South are more seriously affected, probably for a longer time, because of loss of (export)markets (loss of demand, business value chain near-shoring), domestic recession, increased poverty, hunger, weak health system, weak governance. These cumulative effects will weaken institutions and the rule of law and encourage civil strife, corruption and further urbanization (into informal settlements, slums) and international migration. Covid-19 has exposed us further to other realities: the prevailing neo-liberal, “light touch” role by governments, and the focus on short term results and cost efficiencies in government and business, have reduced our shock absorbing capacity and lack of sustainable policy direction: cheap has proven to be very expensive.

7. From Accidental Pain to Systemic Gain:

The pandemic itself is global, however the severity of its direct and indirect impacts is unevenly distributed within most societies, with the poor, minorities and elderly suffering most. Political leaders are being challenged on their leadership, their values and their priorities. Civil society and business have been disrupted, at least temporarily, but many for a longer term as well. However, as always after a crisis, conditions offer an opportunity to accelerate and intensify a defined and broadly agreed transformation agenda to reach “the world we want” - the SDGs. Thus, we may indeed transform “accidental pain into systemic gain”.

8. Aftermath: A Balancing Act:

In the aftermath of the immediate health crisis, a number of highly sensitive social, and, hence, also political, issues need to be addressed in balanced way as there is no single solution: public health vs public wealth; public health vs personal privacy; social protection and safety nets; free vs fair vs sustainable/bounded trade; regional solidarity between the “rich” and the (relatively) “poor”; inter-generational interests; distribution of scarce vaccine(s); conditionality of any official relief & stabilization funding; the direction,
conditionality and the pace of the long term recovery agenda; and a soft landing for emerging stranded assets and industries of the past.

9. Together Farther & Better:

No planet, no people: no prosperity, no business, no profit: notwithstanding the diversity of values, cultures, interests and roles in society, the pandemic is making us painfully aware that nature is not a servant; and that it has boundaries, but no borders. In order to live within boundaries of one planet and one humanity, the inescapable need and everyone’s self-interest is to align and cooperate to get farther together, rather than go faster alone. Contrary to the Great Financial Crisis (GFC) of 2008, which played out in the financial sector with wider, subsequent impacts, the current corona crisis is worse: it takes place in the real economy, with greater and longer lasting, even fundamental consequences. This not only applies between countries, but also within countries to societal actors: government, business, civil society (SDG#10 at the core).

A special stewardship role to realize a new, sustainable “Phoenix” economy is vested in the financial sector as it is a key enabler of the economy-at-large. This sector needs to be “liberated” from its defensive, regulatory “lockdown” since the global financial crisis of 2008/9. Its stewardship role needs to be facilitated by new forms of supportive, de-risking financial instruments from governments.

10. Shared Purpose: A New Social Contract:

Clarity of purpose, direction, benefits and interests are some of the “common, yet differentiated” aspects for a development of a new Social Contract among all societal actors. Each actor needs to transform itself: 1) the government should “make a better society possible” by a pro-active, inclusive setting of long-term objectives of the society and its governance role therein, create a legislative/regulatory/fiscal/policy environment which sets, coherently and consistently, clear boundaries and is catalytic (rather than neo-liberal “additional”) with interventions and instruments for business and civil society “to make such society happen”; 2) Business should act as a responsible corporate citizen, strive for long term value creation for all stakeholders without ignoring the short term realities, guided by principles of ethical, sustainable, multi-stakeholder, impact-sensitive multi-capitalism; it is business’ interest to have a clear regulatory framework as part of its level play.

11. Double Materiality:

Business should recognize, measure its impact on, manage its relationships with, and be held accountable to its key stakeholders and society. This will require: defining its values'-based purpose in society, integrated thinking, acting, and reporting, and consideration of the costs and benefits of each of the 6 capitals (financial, nature, social, human, manufactured, intellectual). For business, a disciplined, stakeholder-inclusive, context-
sensitive, forward-looking due diligence regarding outside-in risks and inside-out impact in the entire value chain ("Scope 3"), will strengthen long term value creation for all stakeholders. This is a balancing act, with a duty to “report and explain” the material trade-offs made. This “double materiality” also has corporate governance consequences: a more pertinent role for stakeholders as advisors to the Board on (positive and negative) impacts. Integrated reporting (including impact statements; independently verified) should become the norm, as should true pricing of products by addressing, internalizing and monetizing material externalities. The shareholders of public, resp. systemic companies should not be considered the exclusive owners of the corporation: they are rather another key stakeholder as providers of financial capital.

12. Making Markets Work for SDG Purpose:

The EC has set out, in its “Decade of Action”, an ambitious legislative agenda related to business and markets: next to its Green Deal & Recovery Plan (as part of the MFF, including digitalization)), there are other important proposals: Sustainable Finance Action Plan, Reform of the Non-Financial Reporting Directive, Human Rights and Environmental Due Diligence, Investor Duties and Suitability Tests, Benchmark & Indices, Ecolabel. At the same time, the political agenda is dominated by redefining internal EU “commons” (“house in order”), its relationship with its immediate near abroad (UK, MEA, EE) and the geopolitical positioning between US and China.

All of these developments will redefine the rules of the game within the EU (already applied by progressive business), but some may also cast a shadow on our own NL economy, as a small country highly dependent of international trade and cooperation. We may have a strong balance sheet, a strong (international) business presence, creative entrepreneurship, and our social cohesion is relatively stable, but our long-term potential is under pressure. Moreover, we are still lagging in the energy-transition. We have to be better to be good and doing well: we have to redefine our unique long term added value proposition: it is strategic!

13. Proposal:

In the perspective for an as orderly as possible, sustainable market transformation playing to our strengths, we must be extremely well focused, socially (“polder”= SDG# 17) inclusive budget-efficient, outcome-effective within a coherent, facilitative “making it possible-“ market-ecosystem for business “to make it happen”.

The “Making Markets Work for Purpose -“ initiative is aiming to identify key obstacles and (existing and new) drivers for large and small businesses to make a major contribution to the SDGs, and benefit from it. The scope is wide and may include issues (in random order); fiscal aspects, (start-up-, upscaling-) capital mobilization, financial instruments (partial risk insurance, CO2 insurance, Outcome Fund), industrial innovation, governance, skills-development, true pricing, subsidies, procurement and contracting policies, competition
law, certification, control failures. The scope is not limited to national approaches, but also, importantly, to regional and local initiatives. It will build on proven practices, existing initiatives and further ideas.

We propose that an independent, yet business-focused committee present practical, plausible recommendations to the government and the business sector (including the financial sector). Some of the recommendations may of interest to the EU as well, for consideration in its legislative/policy agenda. The process may follow approaches similar to the 2014 IMVO Sector Covenant Process (hosted by SER, business sector-lead, with selective public consultation) and the 2016 SDG-Investing (financial sector-lead, but with active governmental experts’ input).

The recommendations are expected in December 2020, for the necessary “sparks” to be put into place in 2021. It will also contribute a positive pathway for equity-mobilization.

A set of smart recommendations may well reduce the pressure on public sector finances and ensure an effective “Phoenix”-momentum!