BERTRAND BADRÉ

Founder and CEO of Blue like an Orange Sustainable Capital, former Managing Director and Chief Financial Officer of the World Bank

Jean-Claude TRICHET

Without any further ado, I will give the floor to Bertrand. You have the floor, Bertrand.

Bertrand BADRÉ

Thank you Jean-Claude, I will try to be brief, since I am going to be a little apart from the main questions, although what I will put on the table is likely to be central for the coming years. I would like to touch base on the question that has been addressed this year in many places, a reset of capitalism. There are a number of things which have happened this year. Is it for real or is it just a fake? It is too early to say.

People reacted to the Business Roundtable call at the end of August. You have the front cover of *The Economist*. This was somewhat misleading when you compare it to the content on what companies are for. You have the initiative from President Macron at the G7 called Business for Inclusive Growth, with the OECD. This was led by Emmanuel Faber, the CEO of Danone. You have the growing importance of impact, sustainable development growth, related investments etc. This was emphasized by the fact that the big players are moving. Moody’s has bought one of the non-financial and extra-financial rating agencies in France. ISS has done the same in Germany. S&P just appointed a global head for extra-financial ratings and so on and so forth.

There is something happening, and it is because of the pressure, mostly from consumers and sometimes from investors. However, it is still fragile and it is still prone to washing. You have heard the expression ‘green washing.’ I discovered it a few weeks ago. As you know, there are the sustainable development goals. Now you call it ‘rainbow washing,’ which is washing diversification. You still have a lot of goodwill on the one hand, with some CEOs and institutions which tend to do great things, but there are no standards. There are no real definitions, so you can call it whatever you want.

Depending on how you mention it, you can say that USD 30 trillion dollars has been invested in ESG-related projects. Or if you are very strict, you can say it is less than USD 500 billion, which has an impact one way or another. Both are probably true. At the moment, people realize that capital, as it is working today, is unlikely to address the climate issue and the social and equality issues naturally. You need a little bit of push.

Is the glass half full or half empty? I do not know, but this is on top of the questions that are being raised by the zero rates environment or negative rate environment, which can be the worst or the best of things. It can be the worst if people are paralyzed and unable to do new things, take risks etc. To date, this seems to be the norm. Or it can be the best if it forces people to think outside of the box. As we just discussed, they realize that you can get -0.5% if you buy European bonds, but you can get “say over 10%” if you do the right thing in Africa or Latin America. I am sorry, but I am a little biased in that.

It is more than a coincidence. There are growing concerns. After the crisis, people realized that we have not addressed the root causes of the financial crisis. 10 years down the road, we are still there. At the same time, we are focused on climate issues and social issues, which are gaining traction. In a world where there is still a big distrust for finance, it might be a nice way to regain the trust of the consumer and investors by doing the right thing. I am not sure we are getting there.

The point is, how can we go beyond fashion, beyond marketing, beyond confusing products, beyond traditional corporate social responsibility. It is to be consistent with what we agreed in 2015. In 2015, we agreed on climate, except for one country, but we also agreed on the Sustainable Development Goals, including climate. As far as I know, the US are still part of the Sustainable Development Goal framework.

We have agreed on the framework and the roadmap. We have not discussed the financial system to get there, and we have to overcome a number of issues. These are still complex issues and they are complex issues to measure. It is difficult to read these things. The methodologies are different and the expectations are different. Vested interests are different. The data is very difficult. It is very easy to say, 'Yes, let us do the good things' and then try and get the data to confirm you have done the good things. This is something that is difficult.

There is also an issue between the emerging markets and advanced economies. When you are trying to invest in emerging markets, you do not want to impose a new Washington consensus, which is on sustainability. Now we are back and now we have a great idea. You do this. Sometimes, you have some resistance, and you will probably have some mis-selling issues. Think of Volkswagen. Volkswagen was considered a highlight of ESG before the Dieselgate scandal. Suddenly, people said, 'My God. I got a lot of diesel off Volkswagen shares, and they were ESG and I felt comfortable'. It appears that they were not.

To fill the glass to the brim, we have to accept this diversity of approach today. Even if skepticism still dominates, this is how we will create accountability. We have to go beyond the nice green bonds and go beyond the nice social bonds etc. At some stage, and I will finish with this, we need to start working on the system. What do I mean about that? It is a 20-year perspective. I am going to be very simplistic.

We must move from the Milton Friedman approach, where the social purpose of the business is to make a profit, or a nice variation is to make a profit for shareholders. Although he added, to be fair, that you need to take societal acceptance of that into consideration. We tend to forget that important element. How do we move from that to what Colin Mayer in particular in Oxford said? The social purpose of business is to find profitable solutions for the planet and its people. It is not profit as an end to an end but profit as a means to an end. This means entering into the nitty gritty details of accounting, compensation, reporting, disclosure, regulatory framework etc. At the end of the day, we connect capitalism with people, the territories etc.

I will add a third dimension to the traditional financial approach, which is risk return and sustainability or risk return and impact. How do we take into account the fact that we are in a finite world? We have to take this into consideration, and as I say sometimes to irritate the accountants, we have to move from a mark-to-market system, to a mark-to-planet system. My kids say, 'Daddy, you should create the hashtag #marktoplanet,' which is a nice suggestion.

Jean-Claude TRICHET

It is a nice conclusion too. Thank you very much. I take it that it is also the responsibility of public authorities to give the appropriate rules, regulations and set of prices that would drive the decentralized decisions of the private sector in the right direction. This is without asking them to lose money, because otherwise we are all lost. Thank you so much, Bertrand.