

## BERTRAND BADRÉ

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

**Jean-Claude Trichet, European Chairman of the Trilateral Commission, former President of the ECB**

I now turn to Bertrand. The metaphor of the oasis with the desert around that Masood mentioned is a good transition to your statement.

### **Bertrand Badré**

Thank you, Jean-Claude and Thierry, for your miracle, to echo what Masood just said. It is great to be present in-person again. Yes, we are exactly a month ahead of the beginning of COP 26 in Glasgow, which is supposed to be a key milestone in the mutation of globalization. We are a few months away from COP 15 in China on biodiversity and nature, another key milestone in mutating globalization in the right direction.

Let me focus on one of the lubricants of globalization, finance. The question we are facing is whether finance has actually changed or is it just another fog that basically covers something that has not really changed? Everybody is talking about green finance, sustainable finance, ESG. You cannot open a newspaper without finding these terms and in a way, it seems too good to be true. This will be a key ingredient if we really want to change in the direction highlighted by both Jean-Claude and Masood and so, the question is are we basically on track?

I will open by making three brief points. Back in 2015, we all, including the US, signed for a new roadmap, in particular the adoption of the Sustainable Development Goals in New York in September 2015 and the adoption of the climate objectives in Paris in December that year. We now realize that the choices we collectively made and endorsed were predicated on the fact that it would go okay. We thought the market would align, people would transition, and it would not be that difficult. There was this kind of thing where you put in massive figures, a cost of four, five, six trillion per annum. That is okay because if you compare it to the size of the capital pool, the size of the economy, it is a bit painful but in the end it would make its way. That was a rough assumption but, of course, we have realized that it is not working and even with Covid we are nowhere near there.

That is the real question behind ESG, where E stands for environment, S for social and G for governance. I will focus on E and S. With E, the main issue is climate and I think people are increasingly familiar with that and understand the ideas. The price of carbon is a pretty well qualified issue, but despite that, we are not getting there at all, the process is just starting.

When you dig deeper into the E, in particular nature and biodiversity, we are nowhere near where we are on climate, etc., so the E is already tough to achieve. When you move to S, social, it is even more difficult. Again, people agree that slavery is not good but when you look at “S” in details, there are huge discrepancies around the world. It is great to say that we will focus on social, but the problems start when you look at the details. I do not want to discuss G, but I would be happy to do that later, but of course, as Masood has said, we should also add T for technology, because handling “T” produce a new wave of questions and we are a bit submerged by everything we see. That is my first point, we realize that the objectives for 2015 were okay, but we did not seriously discuss how to get there, and it is now a tough way to go.

My second point is that we also realized that it is more difficult than we thought. The depth of the changes required is more difficult and all the reports we have published, in particular the GIEC one over the summer, show there is a long way to go. In that context, people start to question what is happening with finance. On the one hand the BIS recently released a report saying that there was a green bubble, with too much money wanting to look green chasing too few green assets. This is a bad signal and I wish there were more assets and less value, but the temperature is what it is. On the other hand, last week the French business school, EDHEC, released a very interesting report reviewing all the green indices. The MSCIs of the world pretending to be green, sustainable, etc., and EDHEC has really checked into it and shown that there is nothing ambiguous when 12% of the content has a green or sustainable basis and 88% has not. People are being sold products as green, which are actually not, and this is not well-known. You may have heard that a German asset manager, DWS, is under investigation by the SEC, about potential greenwashing. A journalist asked me if it was the Dieselgate of sustainable finance and if that way we will realize that once again, finance is lying to us. I think this is the moment of truth and the moment of truth is close and that is very important that financial actors are serious about that. Again, we are not too far away from the financial crisis, and I think that the financial world is still under supervision, maybe rehabilitation. If there is another big issue it will be very detrimental to everything we are discussing.

My last point is that when we discuss this green and sustainable finance, we naturally tend to focus on large, listed entities, the Johnsons, Unilevers or Boeings of this world but we tend to forget the rest. There are a few bits of pieces, including private companies, but also SMEs that are not really addressed and that are the bulk of the economy and more importantly, there are also the emerging and developing economies, which is where I think it is really important.

The question is, who is going to decide the rules for the world? I am talking about a textbook for finance for the next 20 or 30 years and it is a difficult question because it will basically say what is good and what is bad. For example, people talk a lot about diversity and inclusion, and I can tell you that it means something different in every country. When you are in the United States, people say it is about ethnic diversity, but in France, you are prevented from talking about ethnic diversity. In 20 years' time, do you want the French parliament to decide whether you discuss ethnic diversity or do you want S&P or BlackRock to decide? There are many more questions like this to come. When it comes to the emerging and developing economies, which are dear to the hearts of those onstage, the big issue is what type of norms we will set. I have had this conversation with many leaders in the past few months and basically if the rich of the world say that they want a cleaner, more social world and these are the rules, then they



effectively set the bar too high for a number of countries. In that case, people tell me it is like the Washington consensus 2.0, instead of having the textbook of the eighties and nineties, it is a textbook on finance that basically says you have to do this, this, and this and this is not doable and so people will say no. However, in today's world there is an alternative to the Washington consensus, such as China. Therefore, you will have the real thing, no master of the world, so who will decide, and the competition will be there? Are we capable of being inclusive with all the world and channeling the money necessary to go the sustainable route and climate? Or will the OECD countries be too comfortable and say, yes, no, we know the rules and we will protect ourselves? The alternative is as bad, which is really to say that emerging and developing economies are incapable of reaching our standards so we will have a two-tier system, a premium impact, a premium green in advanced economies and low-cost green and low-cost impact in developing economies.

I will conclude there. I think it is ample time that we work on our operating system. Again, to put it simply, we are still in a world led by Friedman's mantra that the social purpose of business is to make profit, which really irrigates the way we account and pay for things, etc. I believe we have to move to a system where the objective of business is to create profitable solutions to the problems of this planet, as we discussed, and the problems of its people. It is not to say profit is bad, it is legitimate when it has a purpose. The question is when there are no masters or too many masters of the world, how do we get there, open the hood, take our toolbox, put our hands in the engine?

Thank you very much.

**Jean-Claude Trichet**

Thank you, Bertrand, for your statement.

What you said on the green bubble, the artificial greening was very interesting, and I must say quite on trend if I trust the various reports. You are at the core of this sound financing of the green transition, and I truly admire what you are doing if I may say so.