Closing Keynote: Leveraging Capital Markets for Sustainable Development

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I. Celebrating ICMA

Martin, thank you very much for that kind introduction. Thank you to you and your colleagues for inviting me to make the closing keynote of today.

I believe this is a time of celebration in Spain, and I am delighted that you invited me to this ICMA event. I just found out that not too long ago Rafa, the King of Clay – for those who do not know, the Spanish tennis player Rafael Nadal – just won the second round of the French Open. He is on his way to win for the 11th time. Pray for me and all his fans that he wins. Also cause for celebration, Real Madrid added another trophy to the world's largest trophy case after winning the Champions League on Saturday. I am a Real fan and a Rafa fan. Some of you may not be, but I know that everyone in this room is an ICMA fan. Permit me to celebrate ICMA a little bit.

No-one has said this since this morning, but ICMA started as an organisation of 19 bond dealers in NM Rothschild & Sons London office in 1968. Of course, today it has members from 62 countries. Since its founding, ICMA has lived through many firsts: the first floating rate note in 1970, the first bought deal in 1979, the first formal swap in 1981, the first global bond in 1989, the first credit-default swap in 1994 and the first plain vanilla green bond in 2008. ICMA has grown as the markets have added size, depth, reach, diversity of products and market participants. ICMA has indeed, as others have said, promoted the highest standards of market practice, advocated appropriate regulation, provided training and enhanced collaboration amongst market participants – so join me in celebrating ICMA for its contribution to the well-functioning international capital markets.

II. Development Finance and Opportunities in Emerging Markets

1. Growth in Emerging Markets

Today, I have chosen to speak about leveraging the capital markets for sustainable development. World Bank Group economists forecast that global growth over the next three years will average about 3%. While advanced economies will grow on average about 2%, the growth we will see from emerging-markets is expected to be at least 4.5%. Evidently, global growth is going to come from emerging markets, which of course relies in part on development finance. From an investor's perspective, emerging markets often offer high returns on a risk-adjusted basis as well as opportunities for diversification. We believe that opportunities abound across many emerging markets sectors. To foster growth, we need to connect investors to products that build human and physical capital. We need to fill infrastructure gaps and improve health and education outcomes. Like the previous speaker said, we need to increase female labour-force participation.

The UN estimates that of the $3.9 trillion needed annually for developing countries to meet the Sustainable Development Goals, only $2.5 trillion is being invested per year. This means we need to bridge this $1.4 trillion annual gap, and I believe we can do so by leveraging the capital markets to complement what public-sector resources already do. Specifically, I believe we can mobilize more private-sector resources. We can focus more on sustainability, as earlier speakers have alluded to. I think we need to continue to think about innovative financing solutions.

2. Learning from History

We need to tackle sustainable development with a sense of urgency. I do believe there is a lot from our experience in the past 50 years that we can learn from. Let me start with the World Bank. Our first bond issuance was in 1947, 70 years ago. Because of the capital markets we can do so much in development assistance. Let me be specific. Our shareholders have paid in a total of only $19 billion for the International Bank for Reconstruction and Development (IBRD), the flagship institution of the World Bank, and the International Finance Corporation (IFC), the private-sector arm. Together, cumulatively, IBRD and IFC have provided approximately $1.5 trillion of financing for development in real terms. If that does not impress you, let me remind you that our first loan was to France in 1947. Of course, this loan was funded by that first bond issue.

There are other advanced nations today that those early days supported. One example I often like to cite is Singapore. In 1963, when Singapore took its first loan from the World Bank, it has a GDP per capita of less than $1,000. Of course, today it has a GDP per capita of more than $50,000. Those early days laid the path for development, but I would also argue that they tell us what the possibilities are for the countries that are our clients today: the middle- and low-income countries. Today, we raise funds globally for all of these countries.

3. New Opportunities

As many of you may have seen, we launched another World Bank entity, the International Development Association (IDA), into the capital markets in April, last month, with a very successful $1.5 billion transaction. Many of you supported us. I mention this because IDA lends to low-income countries in Africa, Asia and Latin America. Since it was founded in 1960, it has solely depended on shareholder and internally-generated funds. Going to the capital markets is transformative. Watch that space, because you will probably see other development agencies that have not leveraged the capital markets go to the capital markets.

We are of course seeking other ways in which we can attract some of the 160 trillion of global assets under management. We want to attract these assets to the profitable and sustainable opportunities in developing countries. Multilateral Development Banks (MDBs), as many of you that work with us know, provide opportunities to de-risk your investments because we are a partner and we have experience in developing countries. Let me cite an example. We assisted with a €20 billion public-private partnership programme for Turkey's health sector. This PPP comprises 50 projects that, when completed, will overhaul and modernise Turkey's healthcare system. Involving the capital markets, in my view, has been key. For example, in one PPP project the European Bank for Reconstruction and Development (EBRD) and the Multilateral Investment Guarantee Agency (MIGA) of the World Bank provided credit enhancement for a €288 million green bond that funded a state of the art hospital. The enhancements raised the bond's credit rating two notches above Turkey's sovereign rating, which made it even more attractive to fixed income investors.

III. The Growth in Sustainable Investments

As other speakers have pointed out about sustainability, many investors today are integrating environmental, social and governance factors into their decision-making. Specifically, investors are looking at how they can connect financial returns with purpose. We see this focus on sustainable investments amongst retail investors and institutional investors alike. We believe it is even going to become more so in the future as millennials, who are set to inherit 30 trillion from their baby-boomer parents, become more involved in these decisions.

There is also another crucial factor, which everybody who spoke earlier about the green bond markets has mentioned, the success of the green bond market. I believe it demonstrates market appetite for sustainable financial products. When the MDBs started issuing green bonds, it was just MDBs. Today you have utilities, corporates, principalities and sovereign issuers – many of them emerging markets issuers – who have decided the green bond market is an extremely important market. As everybody has pointed out, the Green Bond Principles, which ICMA is the secretariat for, have been instrumental to the growth of the market.

I do believe we can replicate the success we have seen with green bonds in other types of sustainable investment products. I am glad that ICMA issued the Social Bond Principles in 2016, which the Chair of ICMA mentioned. We are indeed seeing growing interest from investors. We have done a variety of transactions – with some of them focused on promoting the Sustainable Development Goals (SDGs). We have done a variety of transactions, raising awareness for several SDGs and some of them focused on promoting one SDG, like gender equality, for example. We have also done some transactions that have been linked to equities of companies that promote the SDGs. Both retail investors and institutional investors have been interested in these transactions. We're also building new products, and currently we are working with the Seychelles to facilitate the issuance of the first ever blue bond, which will promote biodiversity, sustainable fisheries and marine planning. In our view, this is significant evidence that sustainability offers many profitable opportunities for capital markets participants.

IV. Innovation

I also believe that innovation is key to scaling up and broadening the opportunities to leverage the capital markets for development. As a pioneer board member of the International Finance Facility for Immunisation (IFFIm), which was founded in 2006, I saw first-hand the power of capital markets to bring immunisation to the poorest 71 countries to the world. I know René Karsenti, the Executive President of ICMA and former Chairman of IFFIm, as well as Cyrus Ardalan, who shared one of the earlier panels, share this sentiment. Together with many of those who have been involved in the many transactions that IFFIm has done over the years, on the back of long-term commitments from donor countries, with the World Bank as treasury manager and the Board of IFFIm, we have been able to raise $5.7 billion in the capital markets. IFFIm investors like that vaccine bonds allow them to earn a market return while also focusing on purpose, with an impact-based investment.

We have also leveraged the capital markets to tackle climate issues. You will agree with me that extreme weather events are one of the difficult challenges of our time. Every year, extreme weather events force about 26 million people into poverty. In our estimate, they cost over $300 billion per year. What are we doing? We are connecting and matching investors who are looking for yield and diversification with developing countries that are seeking protection from these extreme weather events. To date, we have done about $3.9 billion of transactions, of which $2 billion has been in the last 10 months.

Let me give you an example. In February, we launched a $1.36 billion transaction for the Pacific Alliance countries – that is, Chile, Colombia, Peru and Mexico – to help them with protection against earthquakes and hurricanes. This was the largest transaction ever in terms of transfer of sovereign risk to the cat bond market.

Many of you are also aware that last year the World Bank launched the first global pandemic bond. The $425 million transaction was the first time that pandemic risk in low-income countries was transferred to the financial markets. The bond offered investors a high-yield investment instrument. At the same time, it channels surge funding to developing countries that face the risk of a pandemic. We believe this demonstrates that capital markets can also address the most difficult challenges, and people can earn a profit doing it.

V. Looking Forward

I have shared these examples to encourage each one of us to think about innovation that will enable you to secure profit but also engage in developing countries. Looking forward, we must search for game-changing opportunities to leverage the capital markets for sustainable development. Indeed, I am inspired by the story of the Fosbury Flop. Who is familiar with the Fosbury Flop? There are a few people. Please help me tell the others, if I do not describe it correctly enough. The Fosbury Flop is a high-jump technique named after Dick Fosbury, who won the 1968 Olympics. We chose this example because, of course, like the founding of ICMA, this is the 50th anniversary of that feat. What is significant to me is that the technique had never been used before 1968, but since 1968, it has been used to set every new world record and to win every Olympic Games. It was game-changing for the sport.

If I have not encouraged you enough to think critically about game-changing opportunities, let me also remind you that the founding of the Bretton Woods system was game-changing, because it launched the world into the longest period of global peace and prosperity, and I can say to you that the capital markets were instrumental. I know for sure that none of the MDBs nor the World Bank Group could have done the things we have been able to do without the support of many of you in this room and without the capital markets as an instrument of that success.

To conclude, I believe the next game-changing action has to focus on how we end global poverty in our lifetime, within our generation. Ending global poverty is key in an interconnected world. Indeed, Eugene Meyer, the World Bank's first President, said in 1946, "Prosperity, like peace, must therefore be viewed as indivisible. And even from the narrowest considerations of self-interest, each of us must be concerned with the economic development of the world as a whole. For we shall prosper individually only as we prosper collectively."

Please let us work together to end global poverty – and I can assure you that you will still make lots of money. Thank you.