COVID 19 Interconnectedness: 
Addressing the crisis as a ‘Good Steward’

‘May your choices reflect your hopes, not your fears.’ Nelson Mandela

Our current health crisis and its ‘unanticipated’ impact on all aspect of social, economic and natural life is a tragic audit of the transformative promises of ‘ESG’, ‘stewardship’ and ‘active ownership’. The promise to create financial markets where investors are motivated to act as good stewards to build resilience in the real economy by addressing environmental, social and governance issues in their portfolio. Using reformed financial markets to create rather than extract value, harnessing the power of finance for a sustainable future. The global network of responsible investment reforms was supposed to learn from past catastrophes to change behaviour in ways that would prevent future collapse. However, it appears that the transformation is yet to come with investors continuing to finance an unsustainable real economy unable to cope with predictable crises.

In the current crisis it is time to reflect on the responsible investment promises, take stock of existing tools, question their fitness for the task of post-virus rebuilding, learn from the present and if necessary, innovate. Corona-bonds are beginning to emerge, but before we jump on that bandwagon it is worth considering how effective they can be and whether there is a case for set of existing financial products. Investors already have a choice of many financial products that might help mitigate some of the negative effects of the global pandemic.

The virus has demonstrated the complex interconnections and dependencies within which the financial markets operate. Any effective intervention from investors has to be built on a better understanding of how that intervention will ripple through all relevant systems and ultimately rebound on the investors’ portfolios. Financial history is littered with examples of how short-term income maximisation strategies destroyed individual and collective wealth. One lesson from this history is to consider a shift from wealth maximisation to wealth optimisation strategies. Wealth optimisation thinks long term and systematically, and explicitly recognises the need to operate within critical thresholds of other systems.

17 SDGs plus Goal 18 – Shareholder Wealth Optimisation
Sustainable wealth optimisation, stewardship and active ownership should take into account all 17 SDGs and arguably become the 18\textsuperscript{th} SDG. Any investment decision has to consider its impacts, dependencies, risks and value added to all related systems. How is it possible to price a product without an adequate understanding of its likely consequences? How many investors wrongly priced in the risk of a pandemic despite expert advice that it was a matter of when – not if – it would happen. Think of the value creation opportunities if markets had invested in building resilience in systems related to SDG3 Good Health and Wellbeing or SDG 11 Safe, Sustainable Communities. Or perhaps think of the value destroyed by not doing so! Wealth optimisation strategies would identify opportunities to build resilience in connected systems to reduce the magnitude and spread of risks. Financial products built on the logic of maximisation to deal with single, obvious symptoms will delay the inevitable hit rather than reduce impact and magnitude of the hit by transforming the system through resilience building.

Thinking interconnectedly in order to optimise throws up new opportunities for meaningful investments that create and protect wealth. Thinking interconnectedly avoids throwing good money into projects that either cannot work or will make things worse in the long run.

Example – The need for ventilators: Starting off from SDG 3 it is obvious that in the first-place ventilators and ICU bed are needed. However, this assumes that the necessary infrastructure is available, including hospitals and roads to build a timely supply chain of essential medical supplies – SDG 9 Industry, Innovation and Infrastructure. The next assumption is that an uninterrupted energy supply will be available to provide power to the hospitals – SDG 7 Affordable and Clean Energy. These ventilators need trained staff fit and able to operate them, which relies on SDG 4 Quality Education and SDG3 Good Health. However, these ventilators will only be effective if accompanied by Frequent hand washing and good hygiene conditions. This assumes that there is clean water available to wash your hands – SDG 6 Clean Water and Sanitation – which also relies on infrastructure – SDG 9 Industry, Innovation and Infrastructure and cleaning products – SDG 12 Responsible Production.

Given this simple example, where would the funds for a corona-bonds best be targeted now and in the future? Taking a long term resilience perspective, the biggest sustainable payback may be in supporting solutions that are not obviously linked to SDG 3 Good Health but are interconnected and therefore essential to achieve SDG3.

Fighting COVID 19 means understanding the interconnected systems that are at play. The 18 goals approach provides a basis for analysis and action. If you want to be a good steward, then do not wait until ‘Corona-Bonds’ or other Corona-Products are available; Products addressing interconnected SDGs already exist, e.g. green, blue or infrastructure bonds. Make use of existing tools: Engage with your portfolio companies to build resilience in the sub-systems and by doing so in the overall system.

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