

#IFADInnovationTalk no.16

BOND INVESTMENTS FOR SUSTAINABLE DEVELOPMENT: Can Profit and Impact go together?

The 16th IFAD Innovation Talk explored the role of sustainable finance in addressing global climate and social challenges. It highlighted the importance of environmental, social, and governance (ESG) issues and showcased innovative financial strategies for achieving SDGs goals. By fostering collaboration between the public and private sectors, the event aimed to demonstrate how profitability and impact can coexist in bond investments.

The poster features the IFAD Innovation Talks logo in the top left. The main title is 'BOND INVESTMENTS FOR SUSTAINABLE DEVELOPMENT: Can Profit and Impact go together?'. The event details are: Tuesday 28 May 2024, 14:00-15:00 CEST, at IFAD's HQ or via Zoom. The speakers and their roles are: Gulnara Yunusova (Keynote Speech, Director & Treasurer, IFAD), EMMI OIKARI (Closing Remarks, Director, Unit for Development Financing and Private Sector Cooperation, Ministry for Foreign Affairs of Finland), Sheila Codamus-Platel (Head - Investment Management, Treasury, IFAD), Anna Hysrke (Senior Financial Officer, Asset Manager and Advisory Department, Reserve Advisory and Management Partnership (RAMP), World Bank), Sebastien Levy (Head of Investment and Treasury, European Stability Mechanism (ESM)), Zach Dhruve (Head of Portfolio Management, Nordic Investment Bank (NIB)), and Gladys H. Morales (Event Moderator, Global Head of Innovation, IFAD). Logos for IFAD and UN Innovation Network are at the bottom.

In her **keynote speech**, Ms. Gulnara Yunusova highlighted the three key ingredients for effective innovation, namely a moonshot, discipline, and resources, underscoring the Sustainable Development Goals (SDGs) as a common denominator in these efforts. Despite varying delivery methods, the ultimate mandate is to accelerate and sustain progress towards the SDGs. Gulnara highlighted the responsibility in investments, emphasizing the need for capital preservation, liquidity, and returns while directing funds to support SDGs. She pointed out IFAD's success in this area, noting that the organization supports 16 out of the 17 SDGs, with the exception of SDG 11 (sustainable cities) due to its focus on rural development. Finally, Gulnara stressed the importance of regulatory support and investments in resilience to manage credit risks effectively, which is essential for scaling up investments in the SDGs.

The talk continued with a panel discussion moderated by **Ms. Sheila Codamus-Platel**.

Ms. Anna Hysrke talked about the difference between the risk and performance of ESG bonds and conventional bonds. She noted that while ESG bonds should theoretically perform similarly to conventional bonds, in practice, green bonds tend to have higher demand compared to supply, leading to scarcity. Due to this excess demand, green bonds are very liquid. Anna also emphasized that green bonds hold their value better than conventional bonds, but that nevertheless the need to carefully assess all investment decisions remains high.

Mr. Sébastien Lévy compared the performance of ESG bonds to non-ESG bonds. He found no

significant differences in performance but highlighted that ESG bonds have become more prevalent in asset management strategies.

Mr. Zach Dhruve echoed the sentiments of the previous speakers regarding the risk-return profile of ESG bonds, noting their similar performance to conventional bonds but better stability during market downturns. He discussed sustainability-linked bonds, which offer a small step-up coupon and are largely similar to conventional bonds.

Key takeaways from the panel discussion:

- **Sustainability-linked bonds:** Discussed their similarity to conventional bonds, emphasizing stability.
- **ESG investment strategies:** Examined negative screening and complexities in decision-making, stressing the importance of comprehensive data.
- **Need to treat sustainability data with the same rigor as financial data and integrate sustainability into corporate operations.**

The panel also examined the pros and cons of various ESG investment strategies. Negative screening, while straightforward, can exclude potential investments due to varied ESG ratings. Additionally, different methodologies and data providers can complicate ESG investment decisions. The speakers stressed the need for investors to have comprehensive data and contextual stories behind ESG scores to make informed decisions.

While moderating the panel, **Ms. Sheila Codamus-Platel** emphasized the need for harmonizing ESG approaches. She noted that institutions must align their priorities to identify ESG information providers that fit their specific frameworks.

One of the main takeaways is that meaningful progress is being made in responsible investment within capital markets. Although the path to sustainability is challenging, it is essential, and it requires innovation and interdisciplinary collaboration. Sheila highlighted broader issues that need to be addressed, such as treating sustainability data with the

same rigor as financial data and integrating sustainability into corporate operations. She underscored the commitment to pushing boundaries, testing the cognitive limits of innovation, and fostering collaboration across financial markets. The goal is to ensure everyone gets involved in this effort, emphasizing that a unified and collaborative approach is crucial for advancing sustainability in finance.

During the Live Q&A, the discussion on technology in ESG screening highlighted several tools used by investors, including ESG credit ratings, and sustainability data. Many investors also rely on external data providers for ESG compliance screening.

The event aimed to answer the following questions:

- What are the differences in terms of risk and performance between ESG and conventional bonds?
- What are the pros and cons of current ESG investment strategies such as negative screening and sustainability themed investing?
- What are the biggest challenges the ESG bond industry faces today?
- How do responsible investors reconcile financial performance and ESG considerations in managing investments?

The human aspect of impact investment was another key topic. Speakers emphasized the importance of aligning investments with core institutional missions to persuade investors that responsible investments can be profitable. They stressed that truly profitable investments require a deep understanding of the needs and well-being of people, ensuring that financial returns and social impact go hand in hand.

In her **closing remarks**, Ms. Emmi Oikari from the Ministry for Foreign Affairs of Finland reaffirmed the country's commitment to supporting innovative finance to achieve the Sustainable Development Goals (SDGs). She emphasized that profit and impact are compatible, even though there are significant challenges to overcome. Ms. Oikari highlighted key

barriers to innovation, particularly in developing countries, and reiterated Finland's dedication to promoting global access to innovative financial solutions. This underscores the necessity of collaboration and support to drive sustainable development forward.

If you are interested in the discussion with the audience, please consult the [event page](#) to find the recording of the session.

Missed the event? Watch it online!

- A recording of the event is available in the [event page](#).
- If you would like to skip directly to certain sections of the event, the times are listed in the table below.
- Join the [IFAD Innovation Network](#) to receive our updates and to contribute to the knowledge sharing and learning of our innovation community of practice: <https://ifad.dgroups.io/g/IFADInnovation>

Time (minutes)	Section
02.54 - 06.04	Welcome by moderator Gladys H. Morales
06.04 - 09.55	Keynote speech, Ms. Gulnara Yunusova
09.55 - 10.37	Comments by Gladys H. Morales
10.37 - 49.10	Panel discussion moderated by Ms. Sheila Codamus-Platel.
49.10 - 50.22	Comments by Gladys H. Morales
50.22 - 58.30	Q&A
58.30 - 1.01.30	Concluding remarks by Ms. Emmi Oikari
1.01.30 – 1.02.17	Event closing and greetings