"The social dimension of investment"
Mapfre's Second Forum on Sustainable Finance

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Good morning.

Thank you, Miquel, for your kind words of introduction. And thanks to Mapfre and its Observatory on Sustainable Finance for inviting me to the closing of this event. It is a pleasure to be here with you all.

I would also like to take this opportunity to congratulate the award winners for the recognition they have received today; and to highlight the value of the initiative, as these awards are an additional boost for the work that many companies carry out in the field of responsible inclusion.

In financial forums, we regularly talk about sustainable finance and how to integrate environmental, social and governance aspects, the so-called ESG factors, into economic activity. And in these forums, we tend to focus a lot on the "E", i.e., environmental issues, and all the more so these last few days, in the context of the COP26 summit. We talk about green energy, the transition of the production model, reducing CO_2 emissions, but on many occasions, when dealing with these factors, the "S", the social dimension, may seem to be somewhat forgotten.

And nothing could be further from the truth.

Both the social dimension and governance - the third pillar of sustainability - together with the environmental part, are all essential and inseparable components of the new economic and social model we are building together. We need to incorporate the social dimension into investment decisions, while integrating the environmental dimension, to help channel funds in a responsible way, and thus advance, in a balanced manner, the green transition and the improvement of general welfare.

Today I want to focus precisely on the "S", on the social dimension of investment. And more so in this forum.

The social aspects are well reflected in the United Nations Sustainable Development Goals, known as SDGs. In fact, in Spain, almost 70% of listed companies publish commitments to comply with these goals.

The problem is that integrating social aspects into the financial reality of investment is not so simple. And therein lies the main challenge.

And for that purpose, to address this challenge, we need to answer questions such as: what do we mean by social aspects when we talk about sustainable investment, how can we measure them, what is the relationship between profitability and social commitment? How does it fit in with the work being done to support the ecological transition? I am sure that many of these issues have arisen today during the conference. Allow me to share with you some reflections on this.

What do we mean by social aspects?

In general terms, social elements can be understood as the positive contribution of companies towards the stakeholders with whom they interact, be they their employees, their suppliers, their customers, or the citizens and society itself that surround them.

But this is a somewhat ambiguous or vague approach. In fact, the lack of concreteness and clear objectives makes the social challenge one of the factors that investors find most complex to analyse and incorporate into their strategies.

The European Commission, aware of this reality, has promoted the creation of a social taxonomy, following the approach of the existing framework for the green one, although the task is not without its difficulties.

On the one hand, the environmental taxonomy links criteria to economic activities, but in the social sphere, there are concepts, such as the degree of fiscal transparency, which are not directly linked to specific activities, but are measured at the level of the institution or company.

The green taxonomy is also based on scientific analysis and technical criteria, while social elements are often based more on principles and standards, which can make it difficult to develop metrics and quantitative criteria for comparing projects.

On the other hand, it is also important to look for ways to ensure that the social contribution is meaningful, i.e., that it brings real added value. It is not just about creating jobs, unless we are talking about projects in very sensitive and disadvantaged groups, or in less developed countries. Projects should, in general, have a clear and strong social nature in order to be considered as such.

Finally, it can be difficult to narrow down socially sustainable activities in absolute terms. There is always a certain degree of subjectivity and particularities of context and country, which may also come into play.

This is not to say that it is not possible to measure it. Indeed, much has already been done in this area. In Spain, for example, companies already report on social elements such as the wage gap or the number of accidents at work. But, as I said, we need common metrics and objectives to serve as a reference.

The Sustainable Finance Platform, the expert group advising the European Commission on these issues, has been working on the development of a social taxonomy, the first draft of which was published last July. The Platform is expected to submit its proposal to the Commission in the coming weeks, for the Commission to decide on the possible extension of the taxonomy to cover the social objectives.

I am confident that the Commission can move forward in defining the social aspects in a simple way, without complicating the current regulatory framework for sustainable finance, thus facilitating its implementation and scalability.

And how do social and environmental aspects fit together?

This is a recurring issue. It can be argued that the economic adjustments that we, society and business, have to make to move towards a carbon neutral economy may have costs in social terms.

But in reality, this should not be the case, as the ultimate objectives are common. On the one hand, the green or environmental taxonomy already takes into account the need to integrate social factors. Thus, in order to be sustainable, an economic activity must ensure that it complies with minimum social guarantees related to internationally recognised principles and rights.

At the same time, as I said at the beginning, we will not be able to make progress on environmental measures if we do not incorporate the social dimension. This is the only way to ensure that initiatives are credible and sustainable over time, and that they guarantee sustainable and inclusive growth.

The European Commission has set this out in its Green Pact, which recognises the need to ensure a socially just transition and has proposed additional European funding to finance it.

How is the market responding?

We can say that we observe a growing demand and interest. On the one hand, there is a growing awareness in the market that there does not have to be a trade-off between return on investment and social commitment. Quite the contrary. Companies that do not take into account how their activity impacts in terms of social welfare around them may be penalised in terms of reputational image and loss of customers, which would end up having a negative impact on turnover and business volume. To give an international example, consider the cost to the mining company Rio Tinto of destroying Aboriginal caves in Australia.

On the other hand, the market has also evolved in terms of how it values the incorporation of social factors in companies. The donation approach, i.e., giving a share of profits or revenues to social causes, is positive but may not be sufficient. It is important that social aspects are integrated into all company activities and that the social dimension is always taken into account.

So-called impact investing is another example of market developments. This type of investment aims to target funds by ensuring that they have a clear and measurable impact on pre-determined social objectives.

The aim is to incorporate the impact variable into the profitability-risk binomial, making it easier for investors to measure the social and environmental results of the destination of their resources.

But what can be observed in the data? The supply of products to channel these investments is still limited.

In the corporate bond market, the volume of so-called social bonds is still small relative to overall fixed-income issuances but continues to increase. In fact, in the last year, in Spain, around a third of the issuances qualified as sustainable have only been so with a social component.

Collective investment is also beginning to offer products and to evolve, introducing better metrics and measures to quantify the potential impact of investments.

For years there have been so-called European Social Entrepreneurship Funds, or EuSEFs, which invest at least 70% in one or more social aspects. At the CNMV, we currently have six such funds registered which operate in the markets.

We are also beginning to see the development of investment funds that invest in line with social commitments. With the exception of one, which is solely social, in general, sustainable investment funds registered with the CNMV combine social and environmental objectives, based on investing in companies whose activity is aimed at promoting compliance with the UN SDGs or financing projects with social impact.

In parallel, we also see the development of products focusing on impact investment, especially in the area of venture capital. In fact, we are observing a certain phenomenon of specialisation, with the emergence of management companies which engage exclusively in this type of activity. Thus, in the last two years, we have seen the emergence of five new fund managers focused on social investments. This can be beneficial for investors, since it allows them to identify managers more easily, and also for the companies receiving the funds, as it facilitates dialogue with potential investors. Likewise, they are managers that often play an important role in promoting social aspects in the very entities in which they invest.

Final reflections

In short, there is no doubt that social aspects are gaining weight in determining investment. Companies cannot ignore the effects of their activities in social terms and investors, aware of this reality, are beginning to incorporate this variable into their strategies.

But the lack of homogenous definitions and concrete metrics and targets, by which performance can be measured, can make it difficult for investors to benchmark and, ultimately, not facilitate the growth of the sector.

As I said at the beginning, the transition to a sustainable economy must be in a broad sense, leaving no one behind. And if we want the private sector to contribute to achieving a just transition, we must provide clear and simple frameworks and benchmarks, without over-complicating the already broad regulatory framework for sustainable finance. The ultimate goal is to achieve an efficient and accountable allocation of funds.

Perhaps the social focus, the "S", is a little more difficult to measure, but we already have a solid foundation on which to build. Both environmental and social aspects, as well as governance, go hand in hand, and all are necessary if we are to move towards a more sustainable and inclusive society.

Thanks for your attention.