St.Gallen Symposium

ST. GALLEN WINGS OF EXCELLENCE AWARD 2019

The St. Gallen Symposium proudly presents the semi-finalists of the St. Gallen Wings of Excellence Award 2019. These students have convinced the jury with their excellent essays and their innovative ideas. The three very best authors get the opportunity to present and discuss their concepts on stage at the 49th St. Gallen Symposium (8–10 May 2019).

Quang Toan Do (VN)
Yale University

Empowering Social Impact Businesses

“We care more about baldness than malaria!” Bill Gates’ comparison shows how short-termism exists even in the most socially beneficial industry - healthcare.

While building or investing in impactful companies that solve current issues namely global warming, food security, and public health can create great long-term value to all stakeholders, existing social expectation and corporate structure pressure investors and business leaders to deliver short-term financial performance. In other words, existing system forces them to invest in more profitable fields.

While NGOs, NPOs, and Philanthropists have for long joined hands to pick up what businesses left behind, historical evidence has repeatedly signaled that for-profits could be the most prominent element tackling these global issues. However, the concept of “creating shared value” (CSV) in business context (which embraces firms developing a win-win deal with communities they operate in) is still in its infancy; and governments, as the coordinators of business realm, might take an active role in nurturing the “impact” culture and help build an ecosystem to engage all players in the market. To achieve this, I propose to drastically change the current taxation system from an income-based method to social-impact based method, in which firms are taxed based on how sustainable their businesses are, not on how much they profit from the market. This new approach is expected to lead to a paradigm shift in the public perception of business and make impact a market imperative.

My essay also discusses concerns that skeptics might have on this taxation transformation: complexity, fairness, and government’s (potential) budget deficit. While acknowledging the validity of these concerns, I trust that a three-way partnership (governments – NGOs – Businesses) can address all these concerns, leaving the proposal intact.

Linda Du (US)
Yale University

Remittances as a Force for Sustainable Development

Remittances are the money and goods that flow from migrants to their families and friends in their origin countries. The volume of remittances often exceeds official development aid, but they are fundamentally different in that they are private funds. In the light of employing capital for purpose, this essay will explore ways in which stakeholders can employ remittances to create more inclusive economic growth in developing countries. Migration is currently at an all-time high, with 3.3% of the global population living outside the country they were born in. The number of people they support at home is even greater, with 800 million people estimated to be direct recipients of remittances, a number that is 2.5 times the size of the US population. On an individual level, remittances have enabled the families of migrants to cover basic needs including food, clothing and shelter, and act as a form of private insurance in the case of emergencies. They have enabled macroeconomic stability, but currently have not been seen to improve long-term economic growth. For the development community to harness the potential of remittances, a focused working group is required. This essay calls for the creation of a working group consisting of government stakeholders, financial services providers and multilateral organizations to focus on three task areas – the role of government in enabling and standardizing regulations relating to remittances, the need for technical interoperability and co-optition between remittance service providers, and finally the need to educate recipients of remittances on how to invest money rather than spend it on consumption. Remittances provide a way for migrants and their families to transform lives on an individual level and economies on a global level. Directed work can help them to make the largest impact possible in the story of global development.

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Andrew Foley (US)

McGill University

The Portfolio of Dorian Gray: How Our Capital Grew Deviant as We Remained Virtuous

There is an implied notion today that we may consume endlessly without conscience or consequences. Like Dorian Gray, we live to excess while an inhuman artifact putrefies out of sight. Unlike us, however, Dorian was haunted by an artifact, his portrait, that bore his resemblance and reminded him of his guilt. We are spared this shame because our artifact is capital, and it is faceless.

In this essay, I argue that our attempts to divorce our deployment of capital from our identities is unrealistic and impedes progress towards more sustainable consumption. For example, taxing carbon emissions treats deviant consumption as aberrant, penalizing actions that are likely to recur as long as they are more profitable than compliance. What they don't address, however, is the underlying the economic logic that led to pollutive production in the first place. To suggest a more holistic perspective on our relationship with capital, I analyze multinational debates on climate change and the development of Brazil's capital markets through the lens of Giddens' structuration theory. This analysis suggests that long-term, sustainable changes of consumption are only feasible when capital is deployed pro-actively, with an aim towards advancing socioeconomic paradigms, re-weaving institutional logics, and shifting civic mindsets. In other words, when we invest in becoming the people we want to be. I thus submit that productively re-defining the purpose of capital can only be achieved after understanding that our relationship with capital is not a unidirectional exchange: rather, even as we regulate capital, our choices of how to deploy it shape us as human beings.

Natalie Hei Tung Lau (HK)
University of Pennsylvania

Reimagine the Purpose of Capital – An Open-source Impact Database for Impact Investment

Milton Friedman, a Nobel winning economist, once said „The only social responsibility of business is to increase its profits."It has long been assumed that the pursuit of economic growth through profit maximization would spillover to greater social and environmental development. However, the 2008 Financial Crisis shows us that the blind pursuit of capital accumulation with no regard to the social and environmental consequences has traumatizing consequences. As a graduate student in social policy, I have always wondered: Can capital ever achieve a greater purpose?

Through my research on sustainable financing and development, I witnessed a potential game-changer in the industry, known as „Impact Investment" – an investment strategy that seeks to achieve measurable social and environmental outcomes alongside competitive financial returns. Despite its fast-growing trend, the difficulties in capturing „impact" through proper impact measurement prevents the industry from growing further.

Against this backdrop, I would like to put forth a bold yet much needed solution - an open source impact database. It is a one-stop shop for investors and impact analyst to get access to metrics and data for social and environmental impacts, comprising (i) a global impact taxonomy, (ii) an impact baseline and benchmark as well as (iii) a deal share platform. With greater impact data availability and quality, impact investment could serve as an opportunity to revolutionize the purpose of capital itself.

As former UN Secretary-General Ban Ki-moon said „We don't have plan B because there is no planet B" – it is more important now than ever to rewire the purpose of capital for the sake of collective prosperity.

Fang Ou (CN)
University of Auckland

Digitisation to Elucidate Impact and Purpose: Towards Conscious Economic Growth

For decades, society has benefitted from the immense economic development that has provided opportunities for and improved the wellbeing of many people. However, there is a risingconsensus that our economic model based on resource consumption and quarterly-earnings evaluations cannot continue and must be transformed. For this purpose, more and more companies, institutions and individuals have started making conscious efforts to shift focus toward sustainable long-term gains and developments. However, in most cases it remains a challenging feat, due to numerous difficulties including the management of seemingly conflicting financial interests, and the evaluation and appreciation of often intangible environmental and societal impacts.

In recent years, there is increasedrecognition for the importance of companies to benefit all stakeholders, including shareholders, employees, customers and the community in which they operate. We are also starting to see evidence that the effective management of a company's environmental and societal impact is not necessarily at odds with its long-term financial performance. Companies that align with a clear purpose to drive long-term value creation and aim to benefit all stakeholders will accordingly increase the motivation of its employees, customer loyalty and trust, and gain support from dedicated investors and policy makers.

Despite knowledge of the value in having a positive long-term holistic impact, no objective and comparable metric exist to measure it, and the majority of companies and investors still rely on short-term financial performances to quantifysuccess. However, with the ever-increasing adoption of connected digital devices and new developments in data analytics, digitisation will play a key role in enabling the evaluation of companies' holistic impact. This essay proposes six strategies for using digitalisation to transform the perception of value in businesses. The new insights into holistic company performance will support informed decision-making by executives, employees, consumers and policy makers.

Carlos Teixeira (PT)
Harvard University

Uncertainty: the Currency of the Present and the Future

A term like capital is neither neutral nor risk-free. Yet, those in the policy environment often fail to embody what those familiar with financial capital have understood long ago: uncertainty and risk are fundamental criteria for decision-making.

The existing polarization in the public discourse hinders, however, any real change. On one hand, decision-makers exploit uncertainty to define institutional conformity as a source of economic and social stagnation. On the other hand, they craft policy arguments without adequately considering risk, missing an opportunity to enhance welfare. This is growingly problematic. In a world hit by more and more unexpected, damaging events, policy decisions remain reactive rather than proactive. In fact, during crises, nations opt to rely on international support or emergency funding instead of pre-emptively preparing themselves.

Both developed and developing countries should, instead, create and invest in insurance and savings-based instruments dedicated to such uncertain, welfare-disrupting events. Extreme weather, disease outbreak, and financial distress are some potential insurable events. As capitalism remains a defining line of separation between political quadrants, taxation will inevitably emerge as the most adequate starting point to implement this. Public institutions should allow individuals to allocate part of their taxes to risk-covering instruments. By doing so, tools like pandemic bonds or climate risk insurance can be sustainable and ensure against phenomena collectively identified as important to anticipate. Collecting those funds would avoid resource shortages during crises, optimize public finances and provide clear, accountable, public-driven mandates to decision-makers. Such new, but fair, purpose of capital would be most effective if guided by international principles for implementation and monitoring.

After all, if uncertainty is the currency of the present and the future, capital is the means by which one can exchange it for greater equity, prosperity, and sustainability. The alignment of these two for the greater good is the new, ambitious purpose of capital.

Reuben Muhindi Wambui (KE)

Graduate Institute Geneva

Systemic Interventions for Sustainable Capital Financing

Numerous studies have corroborated the narrative that corporate long-termism pays off. A 2014 study by McKinsey found that firms focused on the long-term outperformed their peers in growth of revenue, earnings, and market capitalization. Globally, calls for the use of capital to finance sustainable development have been long-enduring. While interpretation of what counts as sustainable financing differs, it all points to a long-term investment focus that generates positive social and environmental impact. This essay proposes four interventions that will intensify the potential of private capital to finance sustainability. These are systemic interventions – not micro and disjointed solutions – because as it stands, we have many uncoordinated and duplicated efforts. What we need are not more, but less-and-efficient initiatives. Other challenges include non-standardized sustainability metrics, complexity of the SDG landscape (17 goals, 169 targets, 232 indicators), and limited scale of green bonds.

This essay pins down four ideas of action: foremost, overhaul the two main global accounting standards bodies to refine financial reporting. Until sustainability is at the core of reporting, capital will fall short of long-termism in the face of capitalism and shareholder activism. Secondly, realign banking regulations e.g. the Basel standards to incentivize banks to allocate capital to projects with better sustainability outcomes. Thirdly, reconfigure global bond rating systems to explicitly incorporate SDG-linked metrics. These enhanced ratings could offer good signaling to institutional investors who are particular about responsible investing. Finally, as part of regulatory reforms, have a non-executive board member entrusted with sustainability compliance, given the challenge of impact monitoring, attribution and verification at the board level.

No doubt, practical implementation will have to be preceded by goodwill and ownership by industry influencers such as bank CEOs, the Financial Stability Board (FSB), the Bank of International Settlement (BIS), among others.

Lennart Welter (DE)
Moscow State University

Global Cross-Generational Contracts (GCGC) between retirees and young students to improve resilience towards sudden change

Innovations, climate change, and political instability are just a few of the causes forcing sudden changes in our lives. Regionally these changes have a different impact, and therefore, lead to a constant redistribution of wealth and poverty around the globe. Sudden changes make it difficult to plan ahead or to protect against unexpected regional downturns. Young students and retirees are the two age groups that are the most defenseless towards this sudden change, due to their lack of resources and mobility.

GCGCs shift the perspective from a local short-term mindset towards a global long-term mindset. The exposure to local risk is replaced by a smoothed-out global exposure. Students receive funding for their education which gives them better prospects on the global job market. Retirees receive a pension that is not dependent on their direct descendant's contributions or the endowment of their region.

In a GCGC, a larger group of working individuals randomly distributed around the globe contributes provisions for their retirement. They invest a percentage of their income for a certain number of years into the education of a globally distributed group of students. Once these students will enter the workforce, they stop receiving funds and begin paying a percentage of their income to their former donators, who have by now left the workforce and are retirees. The real income of the former students is presumably higher than the income of their former donators, who can now expect a positive net present value of their investment. This also brings motivation for a better and more equal treatment of other regions that might not have been of interest before.

GCGCs offer a new approach to retirement preparation with a strong impact on the young and old alike. The concept gives capital a simple and supporting purpose to a generation growing up.

Johnny Xavier Wong Coronel (EC)
Columbia University

Mobilizing capital towards public electric buses in Latin America

The transport sector faces increased scrutiny due to the effect of carbon dioxide emissions on global climate change and the impact of air pollution on citizens' health. Fostering the electrification of public buses in Latin America is a promising initiative to reduce these negative externalities and improve service quality. Latin America is well suited to engage in such efforts given its high urbanized population and motorization rates, and its robust electric power generation capacity from renewable sources. Today the key roadblock to advance bus electrification is not properly the lack of capital, but rather the low creditworthiness of the small, private owners who operate public bus services. To attract and mobilize capital towards incumbent bus owners I propose 10 strategies that include among others: economic incentives, financial diversification and management transparency. Implementing these levers should enhance the perception and performance of sustainable transport investment in Latin America, and expand electrification further across other modes of transport.