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Financing the Green Transition

- State-of-the-art presentation of the implementation of the Report on the “Desk research on the European regulatory framework to identify the role of finance sector in the green economy” by Margherita Roiatti (Fondazione ADAPT)
- Deliverable 2.3

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Presentation structure & main contents

1. T2.3 & D2.3: objectives, indications from project proposal and state of the art (M9 update)
2. Overview of the main results of the qualitative research phase (literature review)
 - a) quality metrics;
 - b) selection of documentary resources analysed and their classification;
 - c) a focus on the definition of Green/Sustainable Finance (historical evolution and qualifying features);
 - d) sustainability reporting tools and green/sustainable finance;
3. Next research steps



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1. T2.3 & D2.3: objectives, indications from project proposal and state of the art (M9 update)/1

In accordance with the project proposal, **the desk research**, carried out by Adapt and Fondazione ADAPT, **focused on the analysis of the principles and declarations on sustainable finance of the various institutions in the international financial arena, the European regulatory framework** (notably the Green Deal, Just Transition and the EC Sustainable Finance Action Plan) **and the various national legislations with the aim of identifying the role attributed to the European financial sector to foster the green transition and highlighting the gap in terms of adherence of the sector to the role it is called to play.**



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1. T2.3 & D2.3: objectives, indications from project proposal and state of the art (M9 update)/2

Currently, several documentary resources have been selected and catalogued, and the analysis of contributions deemed of particular interest has been finalised.

All contributions were collected in a spreadsheet sorted according to precise labels, using the chronological criterion.



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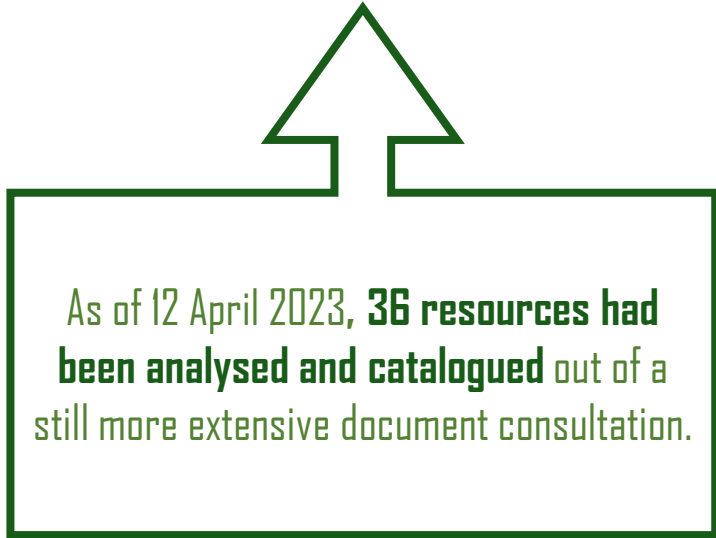
Author(s)/Signatories	Organisation	Type	Title	Date	Link/Reference	Main topic(s)	Elements of relevance to the project	Notes
UNCSD Secretariat	RIO 2012 Issues Briefs No. 16	Brief	Finance for the Transition to a Green Economy in the Context of Sustainable Development and Poverty Eradication	2012	https://sdgs.un.org/sites/default/files/publications/549/rev16.pdf	Green finance; green economy	This Issues Brief provides a picture of current and required financial flows for the transition with a focus on identifying major gaps in finance. The Brief outlines proposals for finance including those from the Rio + 20 Completion text and where possible attempts to convey their feasibility and potential. It suggests that the transition will require the identification of new sources, the streamlining of existing channels and the effective design and utilisation of instruments to leverage private investment.	Interesting taxonomy on finance Flows for Sustainable Development and review of New Financing Needs Associated with a Green Economy Transition
European Commission	European Commission	Communication	COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Action Plan: Financing Sustainable Growth	2018	https://eur-lex.europa.eu/legal-content/EN/0717/0/uri/uri-CELEX-2018DC0927	sustainable finance	In its Communication of 8 March 2018 entitled 'Action Plan: Financing Sustainable Growth' (the 'Action Plan on Financing Sustainable Growth'), the Commission set out measures to achieve the following objectives: redirect capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues, and foster transparency and long-termism in financial and economic activity. The disclosure by certain categories of undertakings of relevant, comparable and reliable sustainability information is a prerequisite for meeting those objectives.	
EU Technical expert group on sustainable finance	EU Technical expert group on sustainable finance	Report	Report on EU green bond standard - Financing a sustainable European economy	2019	https://finance.ec.europa.eu/press-releases/2019-06/190618_sustainable-finance-19-report-green-bond-standard_en.pdf	Sustainable finance; sustainable economy	In June 2018, the European Commission set up a Technical Expert Group on sustainable finance (TEG) to assist in four key areas of the Action Plan through the development of the following: 1) a unified classification system for sustainable economic activities, 2) a European Union (EU) Green Bond Standard, 3) benchmarks for low-carbon investment strategies, and 4) guidance to improve corporate disclosure of climate-related information. The interim report presented the draft EU-GBS, provided a rationale for action and explained how such a standard should be developed and implemented in Europe.	+
P.M. Falcone, E. Sica	Sustainability	Scientific paper	Assessing the Opportunities and Challenges of Green Finance in Italy: An Analysis of the Biomass Production Sector	2019	https://www.mdpi.com/2071-1050/11/2/512	green finance; discourse analysis; biomass production; subsidies; Italy	In their survey of Italian biomass producers, observe that the availability of green finance options does not prevent biomass producers from facing institutional and financial difficulties in funding their investment projects. Some of the difficulties encountered by the biomass producers are: uncertainty about government policies, the minimal involvement of financial suppliers in the biomass sector, the short-term orientation of green financial instruments, and the limited knowledge of available financing options.	
R. Berrou, P.Deserthe, M. Migonelli	Palgrave Studies in Impact Finance book series	Book chapter in Migonelli, M., Deserthe, P. (eds) The Rise of Green Finance in Europe. Palgrave Studies in Impact Finance. Palgrave Macmillan, Cham.	An Overview of Green Finance	2019		Green finance; SDG; green securities	The chapter aims at giving an overview of the key characteristics of the green finance market as it stands today. To this extent, the chapter first recalls the main roots of the role of ethics in finance. Hence, it deals with the political process culminating with the Paris Agreement and the adoption of the Sustainable Development Goals as well as highlights the role of green finance in such a process. Hence, it provides a detailed picture of the market by describing the types of existing green securities and financial products and showing the recent investment trends. Finally, the chapter summarises the key challenges still ahead for green finance in order to be considered a stable component of the modern financial landscape.	

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2. Overview of the main results of the qualitative research phase (literature review)

a. QUALITY METRICS

*"A minimum of **30 sources** will be consulted for the research"*



As of 12 April 2023, **36 resources** had been analysed and catalogued out of a still more extensive document consultation.



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2. Overview of the main results of the qualitative research phase (literature review)

b. SELECTION OF DOCUMENTARY RESOURCES ANALYSED AND THEIR CLASSIFICATION/1

With a view to the realisation of research exploitable by as many users as possible and to adhere to the policy of **open access**, **priority was given to resources available in widely accessible databases or indexes** (such as through 'open access' or 'open data' portals or similar repositories, free of charge).



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2. Overview of the main results of the qualitative research phase (literature review)

b. SELECTION OF DOCUMENTARY RESOURCES ANALYSED AND THEIR CLASSIFICATION/2

The resources were catalogued according to the **following labels**:

- Author(s)/Signatories
- Organisation
- Type
- Title
- Date
- Link/Reference
- Main topic(s)
- Elements of relevance to the GreenFIN project



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2. Overview of the main results of the qualitative research phase (literature review)

c. A FOCUS ON THE DEFINITION OF GREEN/SUSTAINABLE FINANCE (HISTORICAL EVOLUTION AND QUALIFYING FEATURES)

Looking ahead to the training activities to be carried out in the continuation of the project, **the main objective of this first phase of the research was to reconstruct the -complex and multifaceted- definitional framework of the concept of "green & sustainable finance"**, considering both its historical evolution (it was possible to identify similar terms as early as the 1980s) and its qualifying features (e.g. as included in the latest proposed taxonomy of European emanation).



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A FOCUS ON THE DEFINITION OF GREEN/SUSTAINABLE FINANCE
(HISTORICAL EVOLUTION AND QUALIFYING FEATURES)/KEY FINDINGS &
SOURCES

Defining Green Finance: Existing Standards and Main Challenge (2019) >

The issue of clearly defining green finance is not a secondary one. On the contrary, it is central to the debate surrounding the future of the market. In this respect, this chapter provides an assessment of the questions linked to the lack of a clear definition of green finance and of the risk associated. The main approaches today in use in the financial industry for determining which sectors are eligible for green funding are first reviewed. Hence, the main principles adopted to label a financial security as "green" are discussed, in particular as concerns green bonds and green loans. Finally, the different external review options and the risk of greenwashing are treated.



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In general terms **the issue of defining green finance needs understanding of two separate aspects.** The first concerns the sectors or activities that can be financed with green funds. The second regards the operational standards that need to be followed for labelling a specific security, product or service green. As concerns the second aspect, that is specific operational standards to be followed for considering a security, product or service as green, several methodologies have been progressively proposed by the industry in order to attract investors' appetite for specific products categories (e.g. in the case of green funds, green bonds, green loans or even green indices).

These elements are hence assessed by specialised service providers (vis-à-vis ideal benchmarks) in order to decide the eligibility for a green label. *"(...)identifying what is green implies a decision on which are the sectors or the activities that are considered to contribute to reach the environmental goals. In this respect, only green sectors or activities will benefit from the (probably growing) demand-driven flow of resources mobilised by green finance, while all the others may remain excluded."*



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A FOCUS ON THE DEFINITION OF GREEN/SUSTAINABLE FINANCE (HISTORICAL EVOLUTION AND QUALIFYING FEATURES)/KEY FINDINGS & SOURCES

The Development of Green Finance by Sector (2019) > For the purposes of the project, we observe in particular the relevance of § 3.3 titled "Greening the banking and finance sector" which highlights how, although certainly amplified in recent years, the phenomenon of the greening of banks and other financial intermediaries gradually began in the 1980s, mainly driven by increasing energy prices and by the introduction of environmental laws and regulations (therefore elements that are still highly topical). Another motivation to go green was to be a model for clients. If banks could demonstrate that greening their business helps them to save costs, their borrowers or investees might follow their example and also save money by addressing environmental costs.



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A FOCUS ON THE DEFINITION OF GREEN/SUSTAINABLE FINANCE
(HISTORICAL EVOLUTION AND QUALIFYING FEATURES)/KEY FINDINGS &
SOURCES

Developing Sustainable Finance Definitions and Taxonomies (2020) > This OECD report maps sustainable finance definitions and taxonomies in five jurisdictions: the European Union, People's Republic of China, Japan, France and the Netherlands. The report lays out preliminary considerations for good design of taxonomies, which can support policy makers to develop and grow sustainable finance markets to help achieve environmental and sustainable development goals. It also identifies differences among the taxonomies in scope as well as commonalities.



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A FOCUS ON THE DEFINITION OF GREEN/SUSTAINABLE FINANCE (HISTORICAL EVOLUTION AND QUALIFYING FEATURES)/KEY FINDINGS & SOURCES

Green finance research around the world: a review of literature (2022) > This paper reviews the existing research on green finance. It identifies the important themes in the green finance literature, particularly, the strategies to increase green financing; efforts to make green investment profitable; promoting green financing using technology and policy, the role of regulators and financial institutions in the green finance agenda, and the challenges of green financing. Several cross-country observations about the challenges of green finance and solutions to green finance issues are documented. The findings show that green finance has the potential to make a significant difference in the environment, society and for climate change mitigation, but many challenges abound such as the lack of awareness about green finance, inconsistent definitions of green finance, lack of policy coordination for green financing, inconsistent policies, and lack of profitable incentives to investors and financial institutions who are willing to invest in climate change mitigation.



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2. Overview of the main results of the qualitative research phase (literature review)

d. SUSTAINABILITY REPORTING TOOLS AND GREEN/SUSTAINABLE FINANCE

In addition, based on the resources analysed, **the issue of the link between sustainability reporting tools** (including the recent European directive and proposal for a directive and OECD RBC tools) **and green/sustainable finance was addressed** as illustrated by the table on the next slide.



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#GreenFIN D2.3 - References

Standard	Focus	Why Report	Scoring	Who reports
CDP	Primarily GHG emissions but has grown to address water and forestry issues as well.	CDP holds the largest repository of corporate GHG emissions and energy use data in the world and is backed by nearly 800 institutional investors representing more than USD 90 trillion in assets. Its transparent scoring methodology helps respondents understand the steps expected from them.	Companies receive two separate scores for disclosure and performance using 100-point scale. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index (CDLI).	Public and private companies, cities, government agencies, NGOs, supply chains.
Sustainability Accounting Standards Board (SASB)	Public companies only. Industry- specific issues deemed material to investors.	SASB standards enable comparison of peer performance and benchmarking within an industry.	No scoring system. Instead SASB is a standardized methodology for reporting sustainability performance through the form 10-K.	Corporations and companies.
ISO	Systemization and improvement of institutions' environmental management practices.	Quality assurance purposes.	No scoring system.	Public and private companies, and NGOs.
Integrated reporting (IR)	The IR framework provides guiding principles and content elements to assist companies (and other organizations) in the preparation and presentation of integrated reports.	Unlike the 3BL, integrating reporting focuses on the interaction between the economic, social, and environmental pillars.	No scoring system.	Public and private institutions.
Global reporting initiative (GRI)	Corporate social responsibility (CSR) with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality.	GRI is the most renowned reporting platform. With the launch of the standards in 2018, GRI continues to be the oldest and widely respected reporting methodology globally.	Focus on economic, environmental, social, governance aspects of corporate performance.	Public and private companies, cities, government agencies, and NGOs.
Corporate Sustainability Reporting Directive	EU law requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on their risks and opportunities arising from social and environmental issues, and on the impacts of their activities on people and the environment. It also makes it mandatory for companies to have an audit of the sustainability information that they report. In addition, it provides for the digitalisation of sustainability information.	This helps investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies, as part of the European green deal	Focus on economic, environmental, social, governance aspects of corporate performance.	These reporting rules apply to large public-interest companies with more than 500 employees. This covers approximately 11 700 large companies and groups across the EU, including: listed companies, banks, insurance companies, other companies designated by national authorities as public-interest entities
Proposal for a Directive on Corporate Sustainability due diligence	The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance.	The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.	Focus on economic, environmental, social, governance aspects of corporate performance.	Large EU limited liability companies: Group 1: +/- 9,400 companies - 500+ employees and net EUR 150 million+ turnover worldwide. Group 2: +/- 3,400 companies in high-impact sectors. - 250+ employees and net EUR 40+ million turnover worldwide, and operating in defined high impact sectors, e.g. textiles, agriculture, extraction of minerals. For this group, the rules start to apply two years later than for group 1. Non-EU companies: +/- 2,600 companies in Group 1 and +/- 1,400 in Group 2 Third country companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU.
Responsible Business Conduct (OECD)	RBC sets out an expectation that all businesses – regardless of their legal status, size, ownership or sector – avoid and address negative impacts of their operations, while contributing to sustainable development in the countries where they operate. They cover all key areas of business responsibility, including human rights, labour rights, environment, bribery, consumer interests, as well as information disclosure, science and technology, competition, and taxation.	Avoiding and addressing negative impacts of their operations, while contributing to sustainable development in the countries where they operate.	It underscores shared values and commitment to RBC standards as a baseline for a global level-playing field and as a cornerstone of the international rules-based trading and investment system	All businesses – regardless of their legal status, size, ownership or sector, of the countries involved



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3. Next research steps

- bring together the information collected (by MID);
- collect additional data at national level (GreenFIN target countries);
- deliver the first draft of the report in English (by M12 = July 2023);
- deliver the final version of the report in English and Italian (by 14 = September 2023).



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Thanks for your attention!

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