



WHAT ROLE SHOULD FINANCE PLAY IN IMPLEMENTING THE UN 2030 AGENDA?

Expert opinions in an event promoted by the Global Compact Network Italy Foundation

First Business & SDGs Workshop: Responsible Finance for the SDGs
Milan, 18th May 2017



On 18th May, the **first of the four Business & SDGs Workshops** to be promoted by the Global Compact Network Italy Foundation in 2017 was held in Milan, as part of the activities program aimed at supporting the implementation of United Nations 2030 *Global Goals*. This first event, dedicated to the theme of “*Sustainable Finance in Support of SDGs*”, was **organized together with UNEP Inquiry** and **kindly hosted by Edison SpA**.

The meeting, also open to individuals external to the Global Compact Network Italy, had a great and largely multi-stakeholder turnout. There were representatives of companies from various production sectors, financial institutions, rating companies, and non-profit organizations.

Two main strengths of the initiative:

- significance of the thematic focus: the implementation of the UN 2030 *Agenda* requires an integrated and multi-stakeholder approach, and it will only be possible if substantial financial and economic resources are allocated to support the new *Sustainable Development Goals*. At the same time, the *Agenda* provides economic actors - firms and public and private investors - with a set of quantitative and qualitative objectives linked to specific targets that represent internationally shared guidelines and parameters which are useful for aligning investment strategies with the new priorities of sustainable development, as well as for monitoring processes over time.

- prestigious and international panel of speakers: the first part of the meeting devoted to a further study and updating of the themes was entrusted to two special guests: **Nick ROBINS** - Co-Director of UNEP Inquiry, who presented the Report “*Financing the Future*” on the outcomes of the *Italian National Dialogue on Sustainable Finance*; and **George KELL**, Vice-President of Arabesque and Founding Director of UN Global Compact, who held a lecture on “*Sustainable Investing & Market Transformation*”. The second part of the Workshop was characterized by a business-institutions round-table coordinated by **Davide DAL MASO**, Partner and Consultant, Avanzi; and Coordinator for UNEP of the *Italian National Dialogue on Sustainable Finance*.





INTRODUCTION

Highlights of **Marco Frey**'s opening speech - *President, Global Compact Network Italy Foundation*

RESPONSIBLE FINANCE FOR THE SDGs: CHALLENGES AND RESULTS OF THE "ITALIAN NATIONAL DIALOGUE ON SUSTAINABLE FINANCE"

Summary of **Nick ROBINS**' talk - *Co-Director, UNEP Inquiry*



Commencing the work session **Marco FREY**, President of the GCNI Foundation, pointed out that the role of finance is absolutely central to the transition towards a more equitable and sustainable development model than the one outlined in the *2030 Agenda*. The same firms, in different recent surveys and meetings, highlighted how the increased involvement of financial institutions would be a primary enabling factor. Fortunately, today, a shift in speed in the engagement of the main Italian actors in this area can be noted, the important thing being that this should not be limited to a largely environmental dimension but also to fully involve them in the social sphere.

Straight after the introduction above, Nick Robins, Co-Director of UNEP Inquiry, presented the experience and results of the *Italian National Dialogue on Sustainable Finance* launched in February 2016 by the Ministry of the Environment, Land and Sea in collaboration with the UNEP - UN Environment Program, in order to promote a multi-stakeholder discussion on possible actions to improve the integration of sustainability factors in the strategies and decision-making processes of the Italian financial sector.

The *National Dialogue* experience took place in an international environment conducive to a green, sustainable shift in the financial sector, characterized by the following elements:

- UN *2030 Agenda* for Sustainable Development
- Paris Climate Agreement
- "Guidelines for establishing the Green Financial System", adopted by the People's Republic of China
- "Green Finance Study Group" of the G20 - China 2016 and the so called "Hangzhou Consensus" document which was adopted at the end of the Summit
- "Strategy on Sustainable Finance" and Expert Group on Sustainable Finance, adopted by the European Union

The *National Dialogue* involved a large number of stakeholder groups on various focus areas (over 100 experts from banks, institutional investors, insurers, firms, regulators and independent authorities, universities and civil society contributed to the National Dialogue during one year's work) and was divided into eight thematic Working Groups (*Banking, Capital Markets, Insurance, Institutional Investors, Risk, Reporting, Public Finance, Measuring Progress*).





The one year's work on this initiative was concluded with the publication of "*Financing the Future – Italy's National Dialogue for Sustainable Finance Report*".

The report starts from the key premise that Italy can choose to take the strategic opportunity of steering its financial system in support of the transition to a low-carbon, inclusive and sustainable development model.

The *Dialogue* has registered an increasing level of awareness and initiatives among financial institutions, banking, insurance, and savings and capital management.

Screening at national level has in fact highlighted the following positive data:

- Banks: Renewable Energy loans total 27 billion euros
- Shares: within the G7, Borsa Italiana (The Italian stock exchange) is ranked first in the so-called "green revenues"
- Debt: 738 billion euros invested in bonds aligned with the principles of "Climate Action"
- Investors: 616 billion euros invested in activities with sustainability strategies
- Insurance: 22% of the Italian market is characterized by the adoption of sustainability principles

However, the responsible finance sector does not record at the national level a process of systematic growth and development that can only be encouraged through the introduction of market incentive mechanisms and the promotion of a new financial culture.

There are also substantial barriers to the development of good practices, including incorrect pricing, an overly short term approach, and a lack of awareness and specific skills.

During the *Dialogue* 18 specifications were identified, divided into four areas (policy framework, financial innovation, market infrastructures, and knowledge building), that are potentially effective in terms of supporting the process of structuring and consolidating a financial system at national level. By way of example, of the 18 actions identified in the *Dialogue*, 10 are mentioned here below:

1. The Italian Government should adopt a structured approach to sustainable finance, within the framework of the national sustainable development strategy, able to mobilize the capital needed to achieve the objectives set out in the *Paris Agreement* and the *UN 2030 Agenda (SDGs)*
2. CDP could systematize its mandate for sustainable development in a coherent framework of policies and processes and strengthen its responsibility to all stakeholders. Specific attention could be paid to the financing of energy efficiency and sustainable infrastructures. Not only central governments but also local authorities - and in particular the Regions - should underline the importance of sustainability in public policies and their plans by orienting their investments in a coherent manner.
3. The Bank of Italy and other market regulators may use the wealth of information and knowledge that they can access in assessing the implications of climate change on the Italian economy and its financial system and suggest measures for the sharing of good practices used by financial operators.
4. Banks should identify and introduce new funding mechanisms for SMEs who are active in the *green economy*, to accompany the traditional ones but which provide more sophisticated financial





instruments and allow for a longer-term approach.

5. Public and private actors should work together to boost the *Green Bonds* market and to encourage small banks to access this too land small investors to participate in this market.
6. The Government and insurance companies could explore the possibility of a national scheme to cover natural disaster risks linked to climate change.
7. The Government and financial institutions could leverage Italy's role within the "*Mission Innovation*" initiative to increase the scale of private capital for decidedly innovative sustainable technologies.
8. In the light of the implementation of the European Directive on the reporting of non-financial information, a wider range of companies could be encouraged to communicate ESG data to investors and other stakeholders, taking the specificities of SMEs into consideration, together with traditional, comparable economic, financial and transparent assets data.
9. At the same time, all institutional investors could communicate to what extent ESG factors impact their own portfolios and how they are facilitating the low carbon transition.
10. At the public level, with the support of public and private stakeholder bodies, widespread and inclusive information, training and awareness-raising practices should be undertaken to stimulate the country's level of awareness and professionalism on Sustainable Finance issues.

RESPONSIBLE FINANCE IN SUPPORT OF THE SDGs

*Paper by **George Kell** - Founding Director, UN Global Compact;
Vice-President, Arabesque*



The Paris Accord on Climate Change and the adoption of the *Sustainable Development Goals (SDGs)* in 2015 offer important guide posts for the future. A unique feature of both agreements is the fact that the role of the private sector is recognized, and that both corporations and the finance industry are encouraged to be part of the solution, in addition to governmental action.

At the heart of the challenge is to facilitate a massive transformation away from industrial-era scale and scope approaches, where social and environmental impacts were considered externalities to digitalized, networked, and people-empowering business models that are more socially inclusive and environmentally friendly. Already over the past two decades, a silent revolution has been unfolding as more and more companies have embedded sustainability within their strategies and operations. The UN Global Compact exemplifies this evolution, and numerous Italian businesses and entrepreneurs are at the cutting edge, combing best sustainability practices with smart business models.

Until recently, finance has been lagging behind these developments by some margin. This is however





now changing rapidly for three key reasons. Firstly, as shown in studies such as '**From the Stockholder to the Stakeholder**', research demonstrates that good corporate sustainability performance and financial success go hand in hand, thus debunking the myth that sustainable investment comes with lower returns. Secondly, the ongoing big data revolution is fast improving access to extra financial information that has material relevance. And thirdly, technology is breaking down barriers for investors who have traditionally found it difficult to integrate environmental, social and governance (ESG) information because such data has been unstructured, fragmented and of varying quality.

The recently launched **Arabesque S-Ray** is a unique tool that allows anyone to monitor the sustainability performance of over 4,000 companies on a daily basis. Inspired by the impact that the X-Ray had on medicine in the early 20th century, S-Ray is the latest technology of its kind to capture vast amounts of sustainability information that now exists on companies, and make it relevant and understandable to investors. Through machine learning and big data, S-Ray systematically combines over 200 ESG metrics and news signals from over 50,000 sources in 15 languages. The tool also incorporates a preferences filter that allows anyone to better understand each company's business involvements, and how those activities align with personal values.

I believe Arabesque S-Ray holds the promise of connecting the corporate sustainability movement with the rapidly ascending sustainable investment movement. By empowering investors and stakeholders to make better decisions, we stand a good chance of greatly accelerating the transformation towards greener, cleaner and socially inclusive markets. UN Global Compact participants and relevant stakeholders are well positioned to drive this change.

RESPONSIBLE FINANCE SUPPORTING THE SDGs: OUTCOMES FROM THE CORPORATE-INSTITUTIONAL ROUND TABLE

by **Davide Dal Maso** - *Partner and Consultant, Avanzi; Coordinator for UNEP of the Italian National Dialogue on Sustainable Finance*



ROUNDTABLE

Moderator:
Davide DAL MASO - Partner and Consultant, Avanzi; Coordinator for UNEP of the Italian National Dialogue on Sustainable Finance

Speakers:
Davide CIFERRI - Head of Economics, Finance and Markets, Research and Study Services, Cassa Depositi e Prestiti
Elena FLOR - Corporate Social Responsibility Service Manager, Intesa Sanpaolo
Sara LOVISOLO - Group Sustainability Manager, London Stock Exchange Group
Sergio MERCURI - Plenipotentiary Minister, Coordinator for Sustainability Issues, Directorate General for Globalization and Global Affairs - Ministry of Foreign Affairs and International Cooperation

Finance plays a key-role in promoting a sustainable economy: converting the production system to a low-carbon model requires enormous investments, which can only be supported by public capital to





a small extent. Private financial institutions, however, will not be able to give concrete answers to this requirement only by virtue of a moral commitment - which is also necessary. Value for money needs to be considered, in order to also make financing operations of innovation and conversion processes economically viable. This is a typical situation where a firm cooperation between market players and public decision-makers is needed. The case of support for the production of energy from renewable sources represented, from this point of view, a successful example: the regulator defined a clear strategic goal and created the conditions (mainly through tax leverage) to make investment attractive - which indeed it was. This has enabled the creation of a market (on both the supply and demand sides) and the consolidation of a structured supply-chain that, once consolidated, is now able to develop even without an incentive mechanism.

In other words, when public institutions succeed in expressing a long-term vision and achieving coherent measures with a sufficient degree of certainty about their permanence over time, private operators are motivated to contribute. In the absence of these conditions, only subjects with strong intrinsic motivation are encouraged to propose new products, new services, and new business models; but the risk is that they cannot reach the critical mass that only a shared policy at system level is able to produce.

This current period offers particularly favorable conditions, in the sense that all actors (institutions, businesses, intermediate bodies, civil society,...) have gained a high level of awareness about the need for and the urgency of a paradigm shift and it has been noted that a fiercely collaborative spirit exists regarding these issues. The experiences of multi-stakeholder tables, such as the *National Dialogue on Sustainable Finance*, demonstrate that it is possible to activate cooperation programs that put forward proposals and *win-win* solutions. The prospect of sustainable development certainly requires a strong political will, because in every process of change there are interest groups that resist change, in order not to lose the privileges of their position. But this is an evolution that, if properly managed, offers far greater opportunities than the risks.

A sustainable economy proposes an idea of society as being highly developed, fair and cohesive, placing individuals and communities at the centre of such a model.

