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From Sustainable Development to Sustainable Finance: A Global Call for Action

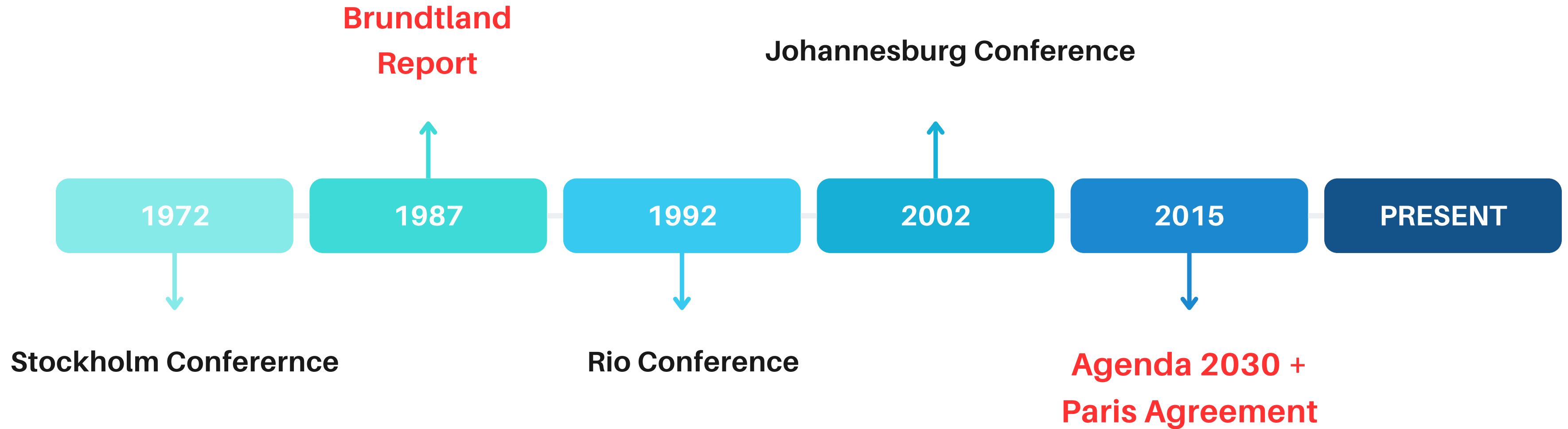
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Short history of Sustainable Development



1972

The Stockholm Conference

United Nations Conference on the Human Environment

- The **first forum** where States discussed the environmental and socio-economic “*problems of the human environment*” as severe menaces for the future and prosperity of humankind.
- Before the Conference: growing awareness about the **un-sustainability of the current global development model** as it heavily relies on economic growth as the real source of development, without considering the **negative environmental and socio-economic externalities** caused by global production and consumption.
 - K.E. Boulding (1966) *The Economics of the Coming Spaceship Earth*
 - G. Hardin (1968) *The Tragedy of the Commons*
 - D.H. Meadows et al. (1972) *Limits to Growth*
- Outcomes of the Conference: 3 non-binding acts:
 - **Stockholm Declaration** – expressing “*a common vision and common principles to inspire and guide the people of the world in the conservation and enhancement of the human environment*”
 - Action Plan for the Human Environment
 - Creation of the United Nations Environmental Program – **UNEP**

1987

The Brundtland Report - Our Common Future

Report of the World Commission on Environment and Development

- The WCED was established in 1983 by the UN General Assembly
- The Report includes the **first definition of Sustainable Development** as:
 - “The development that meets the **needs of the present** without compromising the ability of **future generations** to meet their own needs” – as well as:
 - “A **process of change** in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are made consistent with future needs as well as those of the present”
- The Report was “welcomed” by the UN General Assembly, which also recognized “***the imperative need for making the transition towards sustainable development***” and the belief that “sustainable development (..) should become a **central guiding principle** of the United Nations, Governments and private institutions, organizations, and enterprises”

1992

The Rio Conference

United Nations Conference on Environment and Development

- Focused on **environmental problems and climate change**
 - **Rio Declaration on Environment and Development**
 - Agenda 21
 - **UNFCCC** (United Nations Framework Convention on Climate Change)
 - Convention on Biological Diversity

2002

The Johannesburg Conference

World Summit on Sustainable Development

- **Johannesburg Declaration on Sustainable Development**
- **International Law Association** - New Dehli Declaration of principles of international law relating to sustainable development

2015

2030 Agenda

Transforming our world: the 2030 Agenda for Sustainable Development

- **Universal applicability:** “This is an Agenda of unprecedented scope and significance. It is accepted by all countries and is applicable to all (..) These are universal goals and targets which involve the entire world, developed and developing countries alike. They are **integrated and indivisible and balance the three dimensions of sustainable development**” (point 5)
- **A global call to transforming our world:** “We commit to making fundamental changes in the way that our societies produce and consume goods and services. Governments, international organizations, the business sector and other non-state actors and individuals must contribute to changing unsustainable consumption and production patterns” (point 28)

2015

Paris Agreement

UNFCCC - COP 21

- **Art. 2.1** – This Agreement (..) aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by: (..)
(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Sustainable Development within the International Legal System

as a **CONCEPT**

Brundtland Report: a “model of development” and “a process of change” **reconciling economic growth with environmental and climate protection and overall social development** in the interests of present and future generations.
⇒ cfr. ICJ (1997) Gabčíkovo-Nagymaros Project

as an **OBJECTIVE**

It is generally accepted as an overall objective of the International Community including a plurality of more specific goals and objectives.
⇒ cfr. ICJ (2010) Pulp Mills case
⇒ cfr. UN 2030 Agenda

as a **SET OF LEGAL PRINCIPLES**

It includes a plurality of international legal principles and norms with hard law or soft law effectiveness
⇒ cfr. ILA (2002) New Delhi Declaration

as a **LEGAL PRINCIPLE**

DEBATED. Is Sustainable Development an international legal principle with binding effects for States and IOs? Or is it just soft law?
⇒ cfr. V. BARRAL (2012) Sustainable Development in International Law: Nature and Operation of an Evolutive Legal Norm

From Sustainable Development to Sustainable Finance

The PROBLEM

How to transform the global development model?
How to finance the transition to Sustainable Development?
How to achieve the SDGs?



PUBLIC RESOURCES ALONE ARE INSUFFICIENT!

The CHALLENGE

Reorienting the global flows of capital towards sustainable activities
Integrating sustainable development into private finance
Reforming the international financial system to serve the needs of SD



- 1) Fill the actual investment gap for the SDGs
- 2) Support the systemic reallocation of capital towards SD
- 3) Prevent and manage climate change and sustainability risks

UNEP

Inquiry Report (2015) The Financial System We Need.

Aligning the financial system with sustainable development

The Inquiry's findings and proposals for action drawn from its work through dozens of partners both at the national and international level, indicate that **the financial system can be transformed to better serve the needs of sustainable development** (..) **Progressing the alignment of the financial system with sustainable development will involve new actors, coalitions and instruments.**

G20

G20 Summit (2016)

Hangzhou Summit Communiqué

We recognize that, in order to support environmentally sustainable growth globally, it is necessary to scale up green financing. The development of green finance faces a number of challenges, including, among others, difficulties in internalizing environmental externalities, maturity mismatch, lack of clarity in green definitions, information asymmetry and inadequate analytical capacity, but **many of these challenges can be addressed by options developed in collaboration with the private sector.**

UNEP - WB

Roadmap for a Sustainable Financial System (2017)

UNEP-World Bank, *Inquiry into the design of a Sustainable Financial System*

(T)he full potential of the financial system needs to be harnessed to serve as an engine in the global economy's transition toward sustainable development.

The objective of this Roadmap is to propose an integrated approach that can be used by all financial sector stakeholders - both public and private - to **accelerate the transformation toward a sustainable financial system**. This approach can bring **policy cohesiveness across ministries, central banks, financial regulators, and private financial sector participants to focus efforts.** (..)

The ongoing transition toward a sustainable financial system is taking place through the interaction of three types of initiatives:

1. **Market-based initiatives**

2. **National initiatives**

3. **International initiatives**

the "three drivers of change"

EU

Action Plan on Sustainable Finance (2018)

European Commission, Communication 8.3.2018

- Based on the recommendations of the High-Level Expert Group on Sustainable Finance nominated in 2016
- A package of legislative and non-legislative initiatives regarding the definitions (Taxonomy) and regulations of sustainable financial activities

IPFS

International Platform on Sustainable Finance (2019)

EU and G20 Initiative

G20

Roadmap for Sustainable Finance (2021)

G20 2021

A paradigm shift in international finance

from

**TRADITIONAL
FINANCE**

Driven by the **risk/profit analysis**, to maximize profits.

Indifferent to investments' climate, environmental and social externalities (they are just externalities!)

to

**SUSTAINABLE
FINANCE**

Integration of climate, environmental and social sustainability considerations into financial decision-making.

Maximize profits, while creating lasting benefits for the environment and the society

This umbrella term includes more specific phenomena:

- ESG Investing
- Socially Responsible Investing
- Impact Investing
- Climate Finance
- Green Finance
- Transition Finance

Sustainable Finance components

At issuer level: regulations and practices incentivizing sustainability

- Sustainability Disclosure
- Sustainability Reporting
- Product transparency
- Sustainability Risk Management
- ESG Certifications
- ESG Ratings

At product level: sustainable-labelled instruments

Green Bonds

- **Debt instruments** → high level of market standardization:
- Funds } less standardized labels
- Index }
- Equity }
- ⇒ **Taxonomies**
- ⇒ **Process standards**
- ⇒ **Review Practices**
- **Green** bond/loans
- **Social** bond/loans
- **Sustainability** bond/loans
- **ESG-linked** bond/loans
- **Transition** bond/loans

Sustainable Debt Instruments

GREEN BONDS

Use-of-proceeds debt instruments: **proceeds** from the issuance (=debt) **must be used to exclusively finance "Green Projects"** (=projects, assets, business activities generating concrete benefits for the environment)

Regulatory components:

- ⇒ **Taxonomies** for "Green Projects"
- ⇒ **Process standards** for issuance
- ⇒ **Review Practices** for verification

Applicable (voluntary) standards:

1. **ICMA Principles**
2. **Climate Bond Standard and Certification Scheme**
3. **ISO Standard 14030-1:2021**
4. **EU Green Bond Standard (+Taxonomy Regulation)**
5. **ASEAN Standard (+ ASEAN Taxonomy)**

+ Stock Exchange listing requirements

Global Standards on Sustainable Finance

- **UN PRI** (2006) UN Principles for Responsible Investment
 - PRI (2012) UN Principles for Responsible Banking
 - PRI (2017) UN Principles for Positive Impact Finance
 - PRI (2019) UN Principles for Sustainable Insurance
- **CBI** (2011) Climate Bonds Standard and Certification Scheme
- **ICMA** (2014) Green Bond Principles
 - ICMA (2017) Social Bond Principles
 - ICMA (2018) Sustainability-Linked Bond Principles
- **TCFD** (2017) Recommendations of the Task Force on Climate-related Financial Disclosures
- **GRI** (2020) The Global Standards for Sustainability Reporting
- **ISO** (2022) ISO 32210:2022. Sustainable finance. Guidance on the application of sustainability principles for organizations in the financial sector
- **Basel Committee on Banking Supervision** (2022) Principles for the effective management and supervision of climate-related financial risks
- **IAASB** (2023) ISSA 5000. General Requirements for Sustainability Assurance Engagements
- **IFRS** (2023) IFRS S1. General Requirements for Disclosure of Sustainability-related Financial Information – and – IFRS S2 .Climate-related Disclosure

Global Actors on Sustainable Finance

- **UNEP, WB, IFC, IMF**
- **G20**
- **EU**
- **Basel Committee on Banking Supervision**
- **IPFS** – International Platform on Sustainable Finance
- **UN PRI** – UN Principles for Responsible Investments
- **UN SSE** – UN Sustainable Stock Exchange initiative
- **SBFN** – Sustainable Banking and Financial Network
- **NGFS** – Network for Greening the Financial System
- **IOSCO** – International Organization of Securities Commissions
- **CBI** – Climate Bonds Initiative
- **ICMA** – International Capital Market Association
- **GRI** – Global Reporting Initiative
- **ISO** – International Standardizing Organization
- **IAASB** – International Auditing and Assurance Standards Board
- **IFRS** – International Financial Reporting Standards Foundation

Sustainable Finance under International Financial Law

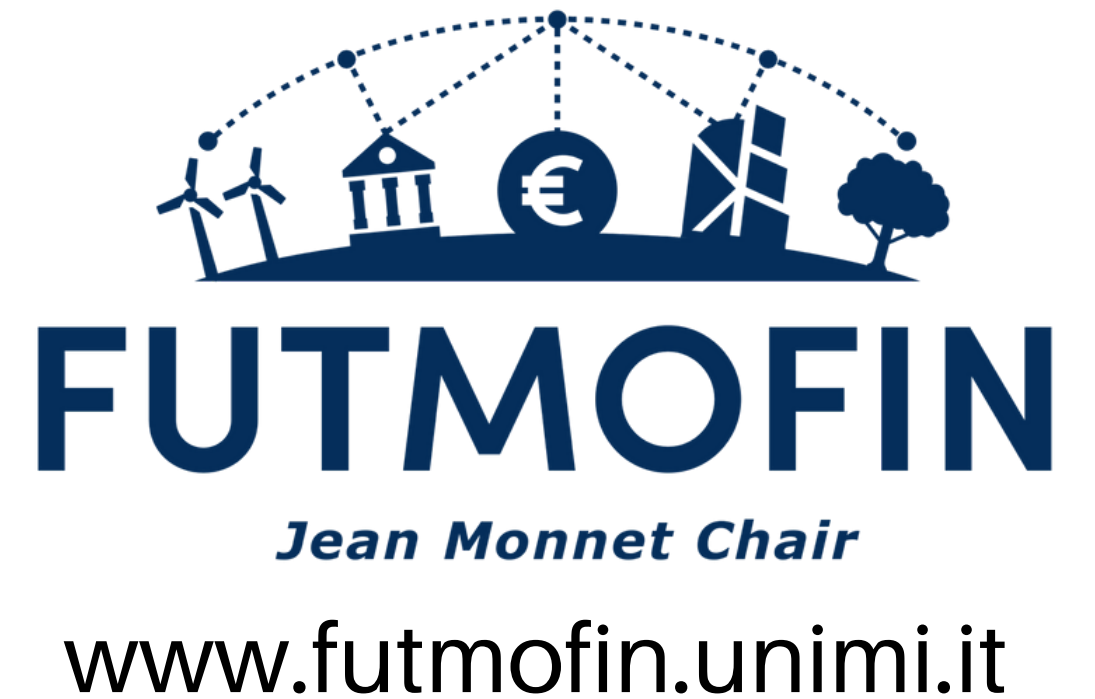
International Financial Law:

- the branch of public international economic law governing international relations concerning financial markets and services;
- very few customary and treaty norms;
- it is mostly administrated through informal intergovernmental fora (es. G7, G8, G20);
- **it is dominated by international standards issued by actors which are not subjects of international law** (es. FSB, Basel Committee on Banking Supervision)

Sustainable Finance:

- crucial role of G20 in policy-making, fundamental support of IOs (UNEP, WB, IFC) and UN-led initiatives (PRI, SSE)
- **proliferation of global standards from public, private and hybrid actors worldwide**
- global cooperation for regulating Sustainable Finance

Thanks for your attention!



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