Sustainable finance and financial education: a snapshot

editors

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Introduction: sustainable finance and financial education

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There is an evident urgent need for a transition to a circular and sustainable economic system. States, financial institutions, NGOs, companies, professionals and the civil society are together required to quickly find solutions to cope with the challenges posed by climate change and the current and future detrimental effects of human business activities on the environment. This e-book, conceived as an instrument of financial education about sustainable finance, wants to contribute to such transition.

Sustainable finance in context

The EU and European Commission, since the launch of the first EU Sustainable Development Strategy in 2001, has committed to contributing to the promotion of sustainable development in key cross-sectoral projects, by intervening in all environmental, social and governance (ESG) areas. Sustainable finance has been recognized as a fundamental contributor to sustainable development and to reaching the 2015 UN Sustainable Development Goals. Based on the Final Report of the High-Level Expert Group on Sustainable Finance (HLEG), the EU Commission adopted in March 2018 the Action Plan "Financing Sustainable Growth", which established a plan setting out strategic recommendations for a financial system that supports sustainable investments. Since then, the EU has been developing over time a comprehensive regulatory framework in the area of sustainable finance, with the objective of supporting the growth and correct functioning of such market, also as a part of the broader 2019 EU Green Deal. This represents an ambitious and broad package of measures that should enable European citizens and businesses to benefit from sustainable green transition.

The importance of financial education

Given the complexity of the financial system and of its policy and regulatory framework and of sustainable finance itself, there is a strong need of research work and initiatives in the area of sustainable finance. Financial education has become a priority in international and national public policies for raising citizens awareness and understanding of the financial sector and therefore contributing to their financial inclusion and welfare, as well as at the same time, the correct functioning of the market (see the various workstreams and task-forces set by OECD, IOSCO, World Bank, G-20, Financial Stability Board, etc.).

This e-book aims at contributing to spreading the knowledge of sustainable finance and its regulation.

The EUSFiL Centre and its activities

The e-book has been developed by the Jean Monnet Centre on European Union Sustainable Finance and Law (EUSFiL) of the Department of Law (company law and economic law section) of the University of Genoa, created in 2020 by its Director Professor Michele Siri with the support of the EU Erasmus+ programme (Ref. Project: 620519-EPP-1-2020-1-IT-EPPJMO-CoE).

The Centre's activities' focus is on sustainable finance, with particular regard to the recent reform of the EU financial system. The Centre's mandate is to engage in research, education, and publications that broadens inquiry, dialogue, and debate beyond tradwitional academic boundaries, bridging the gap between theory and practice. EUSFiL aims to contribute to the achievement of UN Sustainable Development Goals, with particular reference to SDG 8.10 (strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all).

Figure 1. EUSFiL Centre's activities

Source: by Eugenia Macchiavello and Michele Siri.

With particular regard to the research activity, EUSFiL focuses on the legal implications of the integration of sustainability in the financial sector. In this respect, the Centre brings together a team of experienced scholars from different countries and backgrounds, with a very high and diversified profile in various fields (corporate social responsibility, corporate governance, capital markets, banking and insurance law, financial regulation, law and economics, economics and finance, etc.). Several activities have been performed in collaboration with other well-known international research centres, allowing a continuous exchange and ideas, recommendations and scientific knowledge. The four main workstreams are presented in figure 2.

Figure 2. EUSFiL Centre’s workstreams

Source: by Eugenia Macchiavello and Michele Siri.

EUSFiL’s teaching and educational activities are also numerous and diversified: team members have organised several financial education seminars about sustainable finance in the context of the annual IOSCO Investor Weeks and the Italian “financial education month” as well as visited secondary schools to present sustainable finance and its EU regulation to their students. EUSFiL members offer sustainable finance courses or modules at their Universities and are invited to give lectures on the same topic at other Academic institutions. Within these teaching activities, EUSFiL has also developed, together with the University of Genoa e-learning team and EduOpen, three Massive Open Online Course (MOOCs) dedicated to different aspects of sustainable finance and at different levels.

Other activities have been developed with other centres and Departments of the University of Genoa, which presents a rich portfolio of courses in the area of sustainability in different sectors as well as interdisciplinary courses on sustainability (see https://unigesostenibile.Unige.It/Educazione).

A presentation of the objective and structure of the e-book

Within this background, the present e-book aims at increasing the level of financial literacy in the EU in the specific area of sustainable finance in line with the objectives of the EU green deal and action plan on financing sustainable growth. This is the first or one of the first financial education publications to address the recent EU legal framework for sustainable finance.

The e-book presents and explains, in easily understandable terms, fundamental notions in the area of ESG financial markets and financial regulations. The first Chapters will explore the main characteristics of sustainable finance, its role in contributing to sustainable development and the main sustainable investment products. In a second part, after providing an overview of the EU legal reform in the area of sustainable finance, the e-book will focus in explaining the most important legislative acts and initiatives. This will contribute to increasing investors’ trust in sustainable investment products and make them aware of the effects of their investment choices on sustainability issues. As most investors are not even aware of the existence of sustainable financial products, this initiative will likely facilitate the channelling of private capital to sustainable activities and therefore to the objectives of sustainable transition.

To reach more effectively its objectives of financial education and dissemination, the e-book will adopt a clear and simple language despite its technical topic, recur to infographics to help the reader more easily understand complex concepts, reduce at a minimum footnotes, while using hyperlinks to refer to additional sources in a convenient way for readers and boxes to better explain concepts. Nonetheless, the e-book is addressed also to academics and professionals, aiming at promoting dialogue and discussions: hyperlinks and references to academic literature and official EU documents in footnotes at the end of each Chapter provide readers with the opportunity to deepen their knowledge about the most relevant topics and engage in current academic and legislative discussions.

Part One

FIRST OVERVIEW

Chapter 1

WHAT IS SUSTAINABLE FINANCE AND HOW CAN IT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT?

Eugenia Macchiavello

1. "Sustainable finance", "responsible investing", "ESG investing", etc.: all the same?

The expression "sustainable finance" has become widespread nowadays but it is quite recent. Other names have been used over the years to refer to similar concepts, such as "ethical finance" and "socially responsible investing" (SRI). In fact, historically, the first experiences relate to the exclusion of certain sectors (e.g. weapons, tobacco, alcohol, etc.) considered "sin" investments by certain religious groups (e.g. in the US: Quakers and Methodists, Muslims in Islamic finance) [1] or, later on, "irresponsible" by civil activists (boycotting, during Vietnam war, weapons and napalm-producing companies). This led to the creation of segment of the investment markets called "(socially) responsible investment", where investments are chosen not only based on financial considerations.

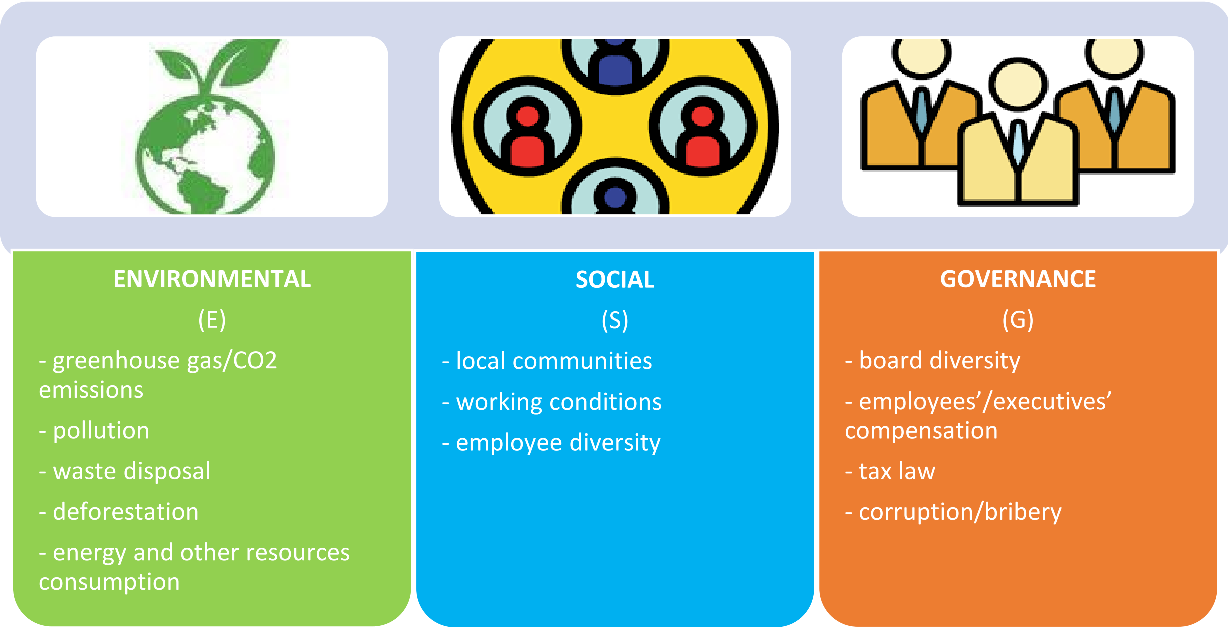
Figure 1. Sustainable finance: different names and evolution

Source: by Eugenia Macchiavello.

Another widespread term is "ESG investments": this refers to the consideration of factors, in addition to financial return, in investment decisions and linked to the environment (greenhouse gas/CO2 emissions, pollution, waste disposal, deforestation, energy and other resources consumption, etc.), the society (local communities, working conditions, employee diversity, etc.) and governance. This last category is the most diverse one, referring to board diversity and pay gaps but also to compliance with tax law and anti-corruption practices.

[1] Martini 2021; Roncalli 2023.

Figure 2. ESG investing (acronym meaning) – factors



Source: by Eugenia Macchiavello.

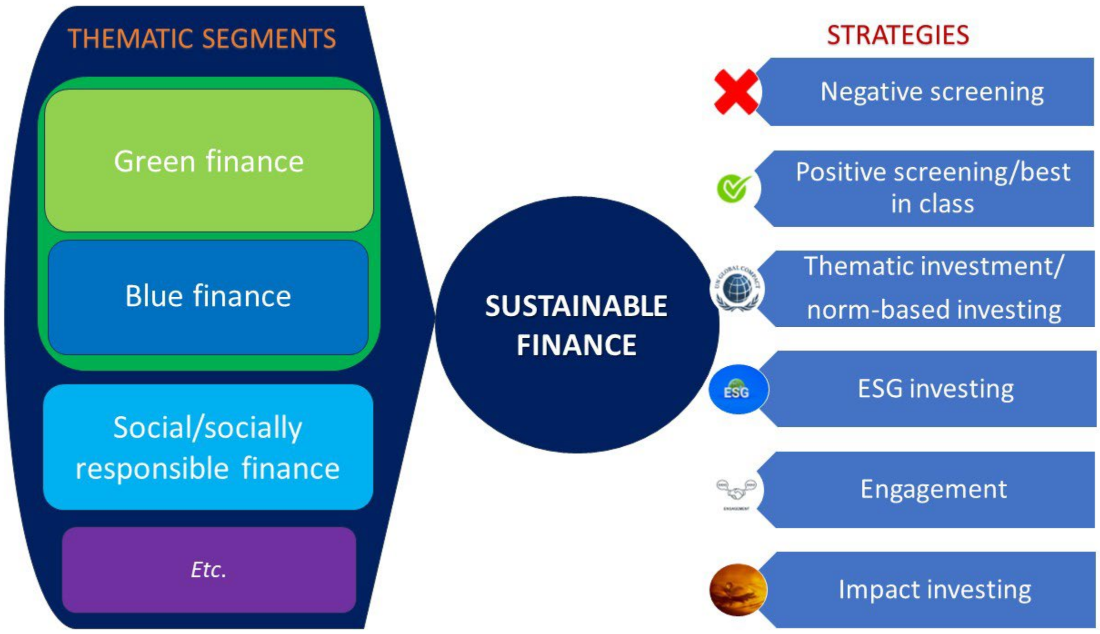
Other terms refer to particular areas of the same universe: "green finance" refers to the environmental area, while "blue finance" to the area of oceans and use of water-related resources. [2] Social or socially responsible finance focuses on social factors and advancement.

Moreover, in the investment market, many different strategies have been developed, each corresponding to different ways of investing "sustainably": from negative screening (simply excluding entire sectors or segments of the economy), to positive screening and best-in-class (choosing, among the investment universe, the "best" companies/investments from a sustainability point of view), thematic investment (focusing on certain goals such as renewable energies, fight against climate change), ESG-risk analysis/integration (including, in the financial analysis of companies, consideration of risks coming, for instance, from the environment or labour conditions), to impact investing (investing with the objective of generating a positive impact for the environment or the society) and engagement (investing in not-yet responsible companies with the objective of transitioning them to more sustainable business models from the inside). [3]

[2] About the blue finance, see the IFC guidelines for blue finance (2022).

[3] About different investment strategies, see Chapter 2 by Piserà and Nieri.

Figure 3. The sustainable finance universe



Source: by Eugenia Macchiavello.

In any case, the term "sustainable" is linked to the concept of "sustainable development" defined in the 1987 UN Report "Our Common Future" (also called "Brundtland Report") as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The UN Resolution "2030 Agenda for Sustainable Development", adopted in 2015 by the United Nations (UN) General Assembly, has clarified that the world development should not only achieve the end of poverty but also the preserving the planet and fostering social inclusion. This fundamental agreement has set 17 "UN sustainable development goals" (SDGs)[4], which, together with more specific 169 targets, shows the way for a more balanced and therefore sustainable development. Certain goals pertain to economic aspects (e.g. no poverty, decent work, adequate infrastructures and economic growth), while others to the social sphere (equality, education, health, peace, etc.) and others to the environmental area (climate action, protection of land, oceans and life on both). The last SDG, partnership, refers, among others, to the cooperation among countries and people to reach all the goals (e.g. transfer of resources and knowledge among countries).

The financial sector, together with public power and other civil and economic sectors, can contribute to reach the SDGs (see below paragraph 4).

[4] The progressive implementation of the SDGs can be tracked in periodic UN reports. The advancement of SDGs in Europe can be monitored through a dedicated dashboard.