Sustainable Finance & Care: The Next Frontier

September 8, 2017 Conference Conclusions[1]

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Summary.

The 2nd Rome Conference of Value Based Investors & SDGs titled '*The New Frontier, Sustainable Finance and Care*', facilitated by European Partners for the Environment and the European Movement Italy, hosted by the Italian Banking, Insurance and Finance Federation took place in Rome on September 8, 2017.

The meeting was chaired by Mr. Nick Robins, UNEP-Inquiry and the keynote speaker S.E. Cardinal Turkson, prefect of the Dicastery for the Promotion of Integral Human Development. The conference welcomed speakers as Reverend Henrik Grape, the Lutheran Church of Sweden and the World Churches Council, Mr. Stuart Hutton of the Responsible Finance & Investment (RFI) Foundation dealing with Islamic Finance, as well as Mr. Javier González Fraga - President of the Bank of the Argentine Nation, in view of the G20 in Argentina, Ms. Lamia Merzouki, Casablanca Finance City Authority which is hosting a global conference of Green Financial Centers (London, Paris, Milano, Hong Kong etc.), Dott. Prof. Ugo Biggeri, President Banca Popolare Etica S.c.p.a. member of The Global Alliance for Banking on Values, Mr. Gianluca Manca, ABI sustainable investment group, European banking federation group on sustainable finance and representatives of organisations as Finance Watch, Share Action, the Global Catholic Climate Movement, CIDSE, The Principles for Responsible Investment .

2017 is emerging as the year of sustainable finance. This highlights the need to place the financial system at the service of sustainable development (Agenda 2030), environment, care and peace. The Conference explored how Financiers, Green Economy experts and representatives of Civil Society can cooperate to 'Transform our World' by addressing the 'New Frontier' : sustainable finance and care, so that '*no one should be left behind'*. For the financial industry two SDG's taken seriously *No Poverty* (SDG 1) and *Reduced Inequalities* (SDG 10) would lead to a revolutionary change of macro-economic, financial and business models.

To move towards a '*stakeholder financial model'* is extremely urgent as Financiers, Governments, Rating Agencies have on the agenda initiatives leading to standards , labeling, regulations, ratings initiatives of sustainable finance products, services and institutions. Sustainable Finance needs to address the environmental, social, economic and ethics dimensions of finance simultaneously.

Sustainable and responsible investors are those who show awareness of the existence of serious unjust situations, instances of profound social inequality and unacceptable conditions of poverty affecting communities and entire peoples and the desire to address them. Willing to engage for a change, they turn to financial institutions which use their resources to promote the economic and social development of these groups through

[1] under EPE responsibility

investment funds aimed at satisfying basic needs associated, for example, with agriculture, reasonable prices, access to water, adequate housing, as well as with primary health care and educational services

The Conference addressed '*divest/invest initiatives'* and *'investing in a just transition'* - how to move from a concern with 'stranded assets' to 'stranded communities'. The Conference also considered further dialogues (regional or thematic) to address this new dimension of *sustainable finance and care* preparing the G20 in Argentina, contributing to the implementation of the *Principles for Responsible Investment* (PRI,) Positive Impact, new equity index, new regional initiatives as the *Africa Agriculture Adaptation* and *MEDCOP Climate* .

This meeting brought together immense richness of what sustainable finance & care could mean across five dimensions[2].

1. "Money must serve not rule, it is a form of intermediation and needs to serve the real economy". The "spontaneous" shift of financial activities towards sustainable finance would be made more solid and protected through an adequate regulation of the financial markets to realize a *finance at the service of the common good and of universal brotherhood*. The principles within Islamic Finance are set out have a massive contribution to scoping out how this may look.

2. The role of individuals in sustainable finance is key. It concerns citizens as well as Financial Practioners. Sustainable finance involves a new mentality and has profound implications for professionals in the financial system in terms of ethical behaviour (care is a dimension of ethics) recognising ecological boundaries.

3. The role of institutions in sustainable finance. Ethical individuals are insufficient to deliver sustainable finance. Change is needed within financial institutions and wider economic and financial 'rules of the game'. Key elements include: developing trusted standards; internal systems for accountability; remuneration; legal framework; promoting the growth of value-based financial institutions; combating financial crime linked to environmental destruction.

4. The role of place in Sustainable Finance. Place is often the forgotten dimension in finance and is fundamentally relational. Sustainable finance involves a renewed attention to place, notably: financial centres (eg emerging network of sustainable financial centres); communities (eg mobilising sustainable finance for specific regions); inter-regional cooperation (eg Euro-Med); developing countries most affected by environmental decline and receiving least financial flows (eg Africa, Caribbean, Pacific); and investors extending their climate strategies to cover the just transition – and responsibility of investors for the communities 'left behind').

5. Key Innovations in Sustainable Finance. Delivering this requires innovation:

- Financial innovation: pipeline of positive impact financial products (meeting return, liquidity, value criteria) across asset classes which can deliver the infrastructure, innovation and inclusion needed for sustainable development.
- Social innovation: effective mechanisms of stakeholder dialogue, engagement and decision-making, social impact in and by finance operation.

[2] The references to regulation and taxation didn't receive an unanimous support from the banking sector organisations representatives.

The conference launched an appeal to the Youth and to all citizens to put finance at the service of the common good , our common house and the central dignity of human persons.

At the invitation of Mr. Javier González Fraga - President of the Bank of the Argentine Nation the third conference will take place next year, 2018, in Buenos Aires, prior to the G20, - with a special session focused on the needs of the poor - on how to empower champions of sustainable finance inside Financial institutions, Retail Investors, Youth, Popular Movements to respond to the *urgent need to restore the social meaning of financial and banking activities expressed by* Pope Francis and other religious dignitaries. Recommendation : a 'Partnership agreement' in the framework of a 'finance stakeholder business model' would be signed .

Conference Conclusions.

2017 is emerging as the year of sustainable finance. This highlights the need to place the financial system at the service of sustainable development (Agenda 2030), environment, care and peace. This means addressing the environmental, social, economic and ethics dimensions of finance simultaneously.

An Appeal to the Youth and to All Citizens.

While the drama deriving from poverty and ecological/climate disasters are growing, and the urgency to move towards sustainable finance is debated in families, universities, churches, municipalities and regional councils around the world as well as financial institutions, the conference participants are addressing a special message to the youth. They have the power to change mindset and change finance, to put finance *at the service of the common good , our common house and the central dignity of human persons*. They have the power by using all the means made available to them in a digital era to mobilise crowds, name, shame and/or reward actors of the financial market.

The conference invites youth and all stakeholders interested to move towards sustainable finance, care and ethics to meet next year in Rome with leaders of faiths and philosophies in support to Pope Francis call for the urgent need to restore the social meaning of financial and banking activities. The theme of this third conference will be ' Sustainable Finance & Empowerment' *to seek ever more creative ways to transform the financial models and structures so that they may be able to respond more and more to the needs of our days and be at the service of the human person, especially those marginalized and discarded*, to mobilise 25 trillion $ on five coming years to implement the Sustainable Development Goals and the Paris Climate Agreement and accelerate the transition to a new development model progressive, modern, inclusive so that no one would be left behind.

From green finance to sustainable finance, integrating the 'care', 'social' and 'ethics' dimensions.

Today there is still a tendency to confuse green finance and sustainable finance. The 'care' dimension is largely missing. Traditional finance focuses solely on financial return and risk. By contrast, sustainable finance considers financial, social and environmental returns in combination. Less than 1 % of financial institutions have adopted the most advanced sustainable finance model[3].

Sustainable and responsible investors are those who show awareness of the existence of serious unjust situations, instances of profound social inequality and unacceptable conditions of poverty affecting communities and entire peoples and the desire to address them. Willing to engage for a change, they turn to financial institutions which use their resources to promote the economic and social development of these groups through investment funds aimed at satisfying basic needs associated, for example, with agriculture, reasonable prices, access to water, adequate housing, as well as with primary health care and educational services[4].

The new frontier : care, a dimension of ethics

There is an urgent need *of finance at the service of the common good, at the service of integral human development of each person, attentive to the care of our common home, but also attentive to the care of our fellow human beings, especially, the most needy ones, the poor, the sick, the disabled and elderly persons.*

The function of finance is to serve the real economy, a real economy that is in transition to sustainable development. This has a number of features (7S): service; solidarity; stakeholders; system-wide; speed; scale; spirituality.

Priorities needs to be to extend the current understanding of sustainable finance to go beyond a pure environmental focus to one that incorporates the human dimension: in other words, care for others.

Ethics

Ethics has two sources : solidarity and responsibility. If you feel that you are 'responsible' you will feel yourself 'solidar' and reciprocally. Sustainable finance includes an ethical approach to the issue of environmental sustainability and social justice with a particular attention to :

- Universal destination of the goods of the earth
- *SDG 1. End poverty in all its forms and everywhere*
- *SDG 10. Reduce inequality within and among countries*

For the financial industry these two SDG's taken seriously would lead to a revolutionary change of macro-economic, financial and business models.However, risks management and profit remain the main concerns of the mainstream financial industry. This industry should be much more concerned by the 'social and systemic risks' related to poverty and inequalities within and among countries and 'environmental damages' social impact as migration crisis do demonstrate .

[3] http://bruegel.org/wp-content/uploads/2017/07/From-traditional-to-sustainable-finance_ONLINE.pdf

[4] Cfr.Adress of Pope Francis to the participants in the Conference promoted by the Pontifical Council for Justice and Peace on "Impact Investing for the Poor", 16 of June 2016.

Such a financial model implies the recognition of global solidarity, which is based on the recognition of the condition of the brotherhood of all men and women which makes all of humanity members of a "single family of peoples in solidarity and fraternity." Global solidarity means seeing others as more than mere neighbours. They are brothers and sisters.

Solidarity applied to finance and to the economy requires ensuring that our financial and economic systems incorporate ethical and moral structures which recognize our responsibilities to our communities, locally and globally, and to our common home.

"Care" is very important to be included in the institutional behaviour, but ethics go beyond corporate rules.

This meeting brought together immense richness of what this could mean across five dimensions[5].

1. *"Money must serve not rule, it is a form of intermediation and needs to serve the real economy"*.

The principles within Islamic Finance are set out have a massive contribution to scoping out how this may look.

The "spontaneous" shift of financial activities towards sustainable finance would be made more solid and protected through an adequate regulation of the financial markets to realize a finance at the service of the common good and of universal brotherhood.
What is " green", what is "sustainable" should be defined by law. EU standards could be set and then reflected in national legislation. The definition of "green" and "sustainable assets" in legislation should go hand in hand with the elaboration of climate adaptation and mitigation plans by each country, consistent with the collective endeavour which has been triggered by the COP 21 Paris Agreement. This process has started with the submission of INDCs (Intended Nationally Determined Contributions) within the UNFCCC process, but those INDCs are not yet translated in real economic plans to tackle climate change. They should urgently be.

Such an economic regulation will penalize unsustainable assets. A single and most important example is the much awaited pricing of the negative carbon emissions externality. Prominent world economists Lord Stern and Joseph Stiglitz recently provided detailed advice in that respect[6]. It is important to have in mind that those "punitive" regulations are also making green investments profitable. When producing carbon dioxide becomes more costly, then low carbon emissions projects also become more profitable.

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[5] the references to regulation and taxation didn't receive a unanimous support from the banking sector representatives.

[6] Please see https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices/

Man has caused harm to his Earth house by releasing too much of Green House Gases in the atmosphere, by depleting water and mineral reserves, by releasing chemical pollutants in nature. Man has the power and the capacity to reverse that process by regulating the economy and impose costs on those activities to make them unprofitable. This will unlock a new sustainable economy (whose broad features have been outlined by the work of the New Climate Economy Commission[7]) and create new opportunities for sustainable financial investment at scale, financing in particular natural capital preservation and conservation. Sweden provides a real life successful story where appropriate, well designed regulation could make an economy sustainable.

2. The role of individuals in sustainable finance

Placing humans at the centre of the change means for :

- Financial practitioners: Sustainable finance involves a new mentality and has profound implications for professionals in the financial system in terms of ethical behaviour (care is a dimension of ethics); recognising ecological boundaries; skills and behaviours. The question to ask is what sustainability mean for a 21st century definition of 'fit and proper' financial professional? This means taking the agenda of financial regulation from the prudential into conduct.

- Citizen consumers: ultimately, citizens as consumers hold most of the capital, but need to be empowered to express their values in the financial system. This can be supported by the work of civil society organisation as well as public policy to support 'sustainable financial literacy'. This is inter-generational.

3. The role of institutions in sustainable finance

Ethical individuals are insufficient to deliver sustainable finance. Change is needed within financial institutions and wider economic and financial 'rules of the game'.

Key elements include: developing trusted standards (eg green/sustainable); internal systems for accountability (eg fiduciary and other duties); incentives (eg remuneration); legal framework (eg EU's MifiD; France's Article 173; Italy's ethical finance definitions); promoting the growth of value-based financial institutions; combating financial crime linked to environmental destruction.

Public institutions deserve a special mention here. Local and national governments have a special role in caring for the health, safety and well- being of their citizens, particularly the poorest. This is a pressing need, as climate change starts to materialize. May we quote Nobel Laureate in Economics Joseph Stiglitz[8] : "Markets on their own are incapable of providing the protection that societies need. When markets fail, as they often do, collective action becomes imperative. And, as with financial crises, there is a need for preventive collective action to mitigate the impact of climate change. That

[7] Please see : www.newclimateeconomy.net

[8] Please see full article at : https://www8.gsb.columbia.edu/articles/chazen-global-insights/learning-hurricane-harvey

means ensuring that buildings and infrastructure are constructed to withstand extreme events, and are not located in areas that are most vulnerable to severe damage…. it means having in place adequate response plans, including for evacuation. Effective government investments and strong regulations are needed to ensure each of these outcomes, regardless of the prevailing political culture in Texas and elsewhere."

4. The role of place in Sustainable Finance

Place is often the forgotten dimension in finance and is fundamentally relational. Sustainable finance involves a renewed attention to place, notably: financial centres (eg emerging network of sustainable financial centres); communities (eg mobilising sustainable finance for specific regions: France); inter-regional cooperation (eg Euro-Med); developing countries most affected by environmental decline and receiving least financial flows (eg Africa, Caribbean, Pacific); and investors extending their climate strategies to cover the just transition – and responsibility of investors for the communities 'left behind').

5. Key Innovations in Sustainable Finance

Delivering this requires innovation:

- Financial innovation: pipeline of positive impact financial products (meeting return, liquidity, value criteria) across asset classes which can deliver the infrastructure, innovation and inclusion needed for sustainable development.

- Social innovation: effective mechanisms of stakeholder dialogue, engagement and decision-making.Social impact in and by finance operation. (Some idea and indicator may come from esg analysis connected with the principles of responsible investing - PRI)

There is a need to focus on market creation not just market failures. Market creation go together with new ways to involve citizens.

Stakeholder financial model

The question then is how this partnership can help to deliver key aspects of this? To induce ethical approaches in private businesses, or at least, to discourage dangerous practices Global Institutions can do much good in attracting attention to this issue. It should be on the agenda of the G20 meetings in Argentina. But governments and NGOs have the tools to put words into action.

The logics of finance is determined by the interest rates, and always the future goods, including the planet, will be penalized by them. More stability in the economic regulation and the financial system means more stability for the future: regulation will bring down the rate at which investors discount future years cash flow, in other words, it has the power to give more value to the future. This would also reduce the pressure from shareholders for immediate profits, because the present value of profits recorded in later years would be increased. Extending influence of stakeholders is determinant, a ' stakeholder financial model' is key, a value chain approach needs to be developed.

To move towards a 'stakeholder financial model' is extremely urgent as Financiers , Governments, Rating Agencies have on the agenda initiatives leading to standards , labeling, regulations, ratings initiatives of sustainable finance products, services and institutions.

There is a need to consider the influence of modern developed markets into the emerging markets, and how this impacts on achieving SGDs.

Education

It is of utmost importance that universities and institutions who educate the future leaderships and the participants in the economic and financial markets do invest also in educating and forming them for a responsible and ethical behavior in the financial context as well as for the capacity of discerning the global public good and of serving it in a constantly changing world.

We have more awareness than skills; we have more commitment than assets. We need greater focus on education, both at high-end and at grass root level. It needs to address the different forms of 'capital' as the financial capital, the natural capital, the civic capital and the new forms of risks related to climae change and planet boundaries and how they are interdependent.

It is so important that we do have this commitment to collaboration and action, whilst recognising that our relationships, especially with the next generation, is a form of social responsibility and is needed for this just transition, and this will need education in cultural preservation, ethics and value.

Taxonomy.

This taxonomy should be elaborated in parallel with country and EU level economic, industrial plans to meet the Paris Agreement 2° target, as a follow up to the INDCS.

Disclosure

Some Conference participants recommended that all EU countries adopt legislation similar to the Article nb 173 of the French Energy Transition Law. This article makes it mandatory to disclose carbon emissions, climate risk exposure and mitigation measures for all French companies: corporates, banks, insurers and pension funds. Extended disclosure will make action more likely, as well as better informed.

Financial Stability, State Vulnerability, Geopolitical risks.

The financial system's instability is an impediment to the necessary transition towards a sustainable economy. There are several mechanisms at stake: for instance, financial instability makes short term investment more attractive than longer term. Also, financial instability translates into state vulnerability and increased geopolitical risk. We think only a more stable financial system can serve a sustainable economy. in order to stabilize the financial system, we recommend to reduce significantly the permitted leverage in banks balance sheets. A maximum leverage of 5 (20 equity minimum for any 80 liabilities) would seem appropriate to achieve the required level of stability in the financial system.

Risks.

Extending risk-based governance to socio-environmental risks:

a. Including sustainability factors in banks' internal rating system
b. Identifying/evaluating the carbon footprint of assets & funds
c. Reducing the ecological impact of the insurance sector activity

The Trust Gap.

Value Based Investors do claim that they are not '*rewarded by the market'* For Financiers this huge gap is endangering the good work they try to do and their future as niche market within mainstream financial institutions. To make more progress we would need trust.

At the same time, the lack of trust deserved by the Financial Industry is a key issue. *Short-termism, lack of transparency, interconnection between greed, fear and instant gratification*[9] are a permanent financial institution 'disease'. According to some[10]many managers of institutions, *even members of 'sustainable finance' initiatives, are overpaid.* For others*, It is not the best way to frame the problem as one of quantity. To design an appropriately long-term focused compensation structure, there should be an objective linked with the long-term objectives for sustainable finance as well as an intermediate-term measurement tool.*

To which should be added that some institutions active in promoting their Sustainable Finance services and products have other branches in the same institution lobbying against sustainable innovative mechanisms as the European Union financial transaction tax in the service of climate change and international solidarity.

As outlined above, more economic and financial regulation may help bridge the trust gap. Economic regulation towards sustainability would provide much of the reward that Value Based Investors currently lack. Economic and financial regulation would provide more stability in the future ie more confidence. Trust is better based on strength, and a successful stakeholder model will work better when strengths are balanced along the spectrum of players, eg between public and private players.

Accountability:

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[9] Flavia Micilotta. Eurosif Executive Director.

[10] Mark Van Clieaf. Organizational Capital Partners. *if institutional investors can't get the basics like pay and performance (5 yr return on capital) working effectively through their corporate governance functions, do we really stand much of a hope in addressing the more critical issues like metrics and incentive designs align with a clean energy transformation over the next 20 years ?*

Who is promoting/ creating / having an initiative or action should be strongly accountable for it. We can't point the finger toward governments or private sector, or make initiatives compulsory.
Stranded assets in the balance sheet to be made transparent

Fiduciary duty

Fiduciary duty today requires to align management with new risks as the one deriving from climate change and the planet boundaries.

The definition of two domains, of ordinary credit and of *Investment Banking*

This distinction, it was felt, would allow a more effective management of "shadow markets" which have no controls and limits

Impact Investing

Social impact is part of the value based investing.

The Global Catholic Climate Movement as well as the Lutheran Church and the experts of Islamic Finance described their initiatives and views regarding invest/divest including how Roman Catholic groups are shunning investments in fossil fuels and are urging others to follow suit. The "joint divestment from fossil fuels is based on both their shared value of environmental protection and the financial wisdom of preparing for a carbon-neutral economy" .

Fossil Free Products

The financial markets can be structurally flawed and an inadequate response to climate change is one of these failings.

Currently financial markets thinks we're going to burn all the coal, oil and gas – so thinks of fossil fuel resources as assets. Same with fish – and forests.

As governments move to control carbon emissions, this market failure is creating financial risks for investors - notably the threat of fossil fuel assets becoming stranded.

From fisheries to forests – markets need to get to grips with ecological limits

Labelling, Ratings

Labelling of sustainable finance products and services need to include specific references to care and ethics, disclosure of invest/disinvest, impact investing, new risks management and fiduciary duty, accountability as described above.

Any labelling should be equipped with a grading system.

Taxation on Financial Transaction.

Taxation measures on financial transactions with fair rates modulated in proportion to the complexity of the operations would be very useful in promoting global development and sustainability according to the principles of social justice and solidarity.

Recommendation : Towards a 'Partnership agreement' in the framework of a 'finance stakeholder business model'

To help to move from niche market to mainstream market as well as to create a *virtuous circle* by which financial products and services are better aligning with the 'common good', the third conference 2018 would agree on a partnership between CEO's of Value Based Investors Institutions and other stakeholders of the Sustainable Finance, Ethics and Care value chain. . It will be based in particular on the Stockholm Declaration co-signed by investors and the Swedish Lutheran Church and the conclusions of the Rome Conference of 8 September 2017 on Sustainable Finance, Ethics and Care in preparation for the G20 in Argentina.

It will take the form of an Partnership Agreement based on 'finance, ethics & care' dialogues to create pilot 'sustainable finance areas', address specific nexus related to agriculture, energy, water, megacities and specific regional initiatives on several continents.

In the digital era, a blockchain *Sustainable Finance, SDG's and Climate* would be part of the partnership agreement

The conference welcomed initiatives as developed by many participants organisations. They agreed to provide a web-portal in view of the next conference with information related to their respective initiatives to exchange information.