



MINISTERO DELL'AMBIENTE
E DELLA TUTELA DEL TERRITORIO E DEL MARE



Anglo-Italian Financial Services Dialogue

UK-Italy Green Finance Round Table

What makes green “green”

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What is green, what is sustainable

- Methodological issues in financial sustainability:
 - In finance, investments are green or sustainable if they refer to particular categories (e.g. LuxFlag label if at least 75% of investments in bond is related to green bonds)
 - Difficult to measure how much sustainable and green investment portfolios are: agreement on metrics (e.g. carbon intensity of investment portfolios)

Green industry, green jobs, green investments, green finance: what is green?

- Water
- Waste
- Nature & Biodiversity
- Air & Climate
- Organic (biologic) food
 - Renewables
 - Energy Efficiency
 - Sustainable Energy
 - Sustainable Mobility
- Nuclear?
- Chemistry?

Green and Greener

- Further examples (methodological issue):
 - Green products different from Greener products.
 - Energy: Solar PV is green, natural gas is greener with respect to gasoline and diesel. Should we consider investment in natural gas sustainable?
 - G7 Environment work on MDBs: Introducing biofuels (“greener” sector) in the Controversial Category (“brown” projects).
 - How much Greener?
 - How much “low-carbon”? -1% -50% -99%?



Evolution of the GDP definition in State Accounts since Kuznets (American Congress, 1929 crisis)

- Developed in 30s and 40s amid the upheaval of the Great Depression and global war;
- Simon Kuznets, the metrics' chief architect, had warned against equating its growth with well-being;
- GDP measures mainly market transactions. It ignores social costs, environmental impacts and income inequality;
- UN 17 SDGs of the Agenda 2030 now represent a new milestone.

Evolution of standard economic-financial Company Accounts

- '80s-'90s: companies' environmental responsibility came to the foreground;
- 1996: in Denmark, first obligations for environmental reporting;
- 2002-2003: EU makes compulsory the adoption of International Accounting Standards (IAS).
- Environmental relevance in IAS 1: *“In relation to environmental accounting, the separate disclosure of environmental costs and liabilities should be required, especially in the case where it affects the financial situation and performance and influences the decision makers who rely on the information content of the financial statements considerably”* (Farkas B., 2011).

Time seems ripe for standard minimum environmental-climate Company Accounts

- ✓ **Not only an environmental issue**
- ✓ **But also an issue of transparency, accountability, fairness**
- ✓ **Correcting the market for making it work better (like EFRs and the removal of FFSs)**
- ✓ **With the help of the business and financial community**
- ✓ **Competition, playing level field**

French experience (loi de transition energetique), EU non-financial info Directive

- French Energy Transition Law - Article 173:
 - Strengthens mandatory carbon disclosure requirements for listed companies;
 - Introduces carbon reporting for institutional investors, defined as asset owners and investment managers.
- EU non-financial Info Directive (Directive 2014/95/UE):
 - Implemented in Italy through Legislative Decree 254/2016: Goes in the right direction since it has at *“least to contain, whether possible, medium-term impact assessment on environment, health and security”*;
 - Not compulsory to provide indicators/standards. No indication on “how to do it”. Ambiguity of “whether possible”.

Natural Capital in Green Accounts, UK NCC and Italy NCC

- Natural Capital has to be considered within the economic planning and its value should not be neglected when drafting policies and norms. Indeed, the path for the integration of Natural Capital within political decisions and accounting systems addresses the urgency to switch the current negative trend on biodiversity and ecosystems.
- Natural Capital Committee in UK: First term ran from 2012 to 2015. Second term from 2016 to 2020. It provides advice to the government on the sustainable use of natural capital - that is, our natural assets including forests, rivers, land, minerals and oceans. Scientific membership, policy-oriented nature.
- Natural Capital Committee in Italy: Composed by institutional members along with scientific experts (appointed by the Italian Minister of Environment). The Italian NCC's mandate is to measure NC in physical and economic terms, and to provide arguments for consideration of the Natural Capital within public policy decision-making in Italy.

Italian Green/Sustainable Finance Report, EU Green/Sustainable Finance Report

- February 2017: Italy presents the National Dialogue on Sustainable Finance (Padoan-Mef, Galletti-Mattm and UNEP at Bank of Italy).
Two goals:
 - Identify instruments to mobilize private capital to foster sustainable development;
 - Integration of sustainable development in the decision-making process on how to allocate portfolio investments of financial operators.
 - Paves the way to OISF (Italian Observatory on Sustainable Finance)
 - and to Milan-Italy Financial Centre for Sustainable Finance
- HLEG Report: 20 EU experts + NGOs (July 2017, Feb. 2018)
 - Goal: European Strategy for Sustainable Finance
 - Recommendations and Priorities of the Italian NDSF largely converge with the European Report (Italian Report as a precursor?)

G7 Financial Centres Initiative, Milan Financial Centre, Milan 12-13 April

- *“We acknowledge that financial centres play a pivotal role in the allocation of capital. We recognize the commitments to sustainability made by an increasing number of financial centres and the potential of these initiatives to be furthered through international cooperation”.*
- Our Ministers also kindly noted with interest *“their launch of an international network of financial centres and we welcome the Italian proposal to host the first meeting of the network”.*
- The Network has been launched in Paris at the One Planet Summit (Dec. 2017): financial centres are joining already including Astana, Casablanca, Dublin, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Milan, Paris, Qatar, Shanghai, Shenzhen, Stockholm, Toronto, Zurich
- The Network is open to all financial centres and its first meeting will be held in Milano on 12-13 April 2018.

References 25.01.2018

- 1) UNEP Inquiry on the Design of a Sustainable Financial System <http://www.unep.org/inquiry/>
- 2) G20 GFSG (Green Finance Study Group) <http://unepinquiry.org/g20greenfinancerepositoryeng/>
- 3) Italian National Dialogue on Sustainable Finance <http://www.minambiente.it/pagina/dialogo-nazionale-la-finanza-sostenibile>
Report “Financing the future” (English): <http://www.minambiente.it/pagina/finanziare-il-futuro-le-istituzioni-finanziarie-e-la-transizione-verso-uneconomia-sostenibile>
Report “Financing the future” (Italian synthesis):
http://www.minambiente.it/sites/default/files/archivio/notizie/summary_financing_the_future_it.pdf
- 4) G7 on (inter alia) at <http://www.minambiente.it/pagina/economia-ambientale>:
 - Financial Centres for Sustainable Finance (Unep Inquiry)
 - Sustainable Finance for SMEs (Unep Inquiry)
 - MDBs supporting the implementation of the Paris Agreement and SDGs (WRI)and Communiqué G7 Environment (paras on Sustainable Finance and MDBs)
http://www.minambiente.it/sites/default/files/archivio_immagini/Galletti/G7/communique_g7_environment_-_bologna.pdf
- 5) UK Natural Capital Committee: <https://www.gov.uk/government/groups/natural-capital-committee>
- Italian Natural Capital Committee: <http://www.minambiente.it/pagina/economia-ambientale>
- 6) EU, Sustainable Finance and the EU HLEG Interim Report:
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
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