Research report of Jean Monnet Project Assessing the EU strategy on Green Finance and ESG factors

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The project has dealt with the extremely current topic of socially responsible investments (known as SRI, acronym for Socially Responsible Investments) in the context of the pursuit of a global and more specifically European sustainable finance, with the specific target of contrasting the risks deriving from climate change and pursuit of the Sustainable Development Goals drawn up by the United Nations in 2015 and set as road map for the 2030 Agenda.

Speaking of SRI we refer to an investment approach in which the research, analysis and selection of investments takes place not only on the basis of traditional and usual financial considerations, but also on the basis of environmental, social and corporate governance criteria, known as ESG criteria. Therefore the SRI investment, thanks to the integration of ESG variables in the objective function of the investor, allows to create value both from an economic-financial point of view and from a social one. The achievement of this goal can be implemented by the improvement of the sustainability profile of companies and institutions operating in the overall socio-economic system. In this way, the process of creation of value is fully inserted in a sustainable development, bound to the fundamental concept of intra-and inter-generational equity, in a medium-long term perspective.

The integration of sustainability criteria into investment activity over the last few years has gone from being a niche practice, for the few who courageously went against the trend with respect to the traditional standards of finance, to being a clear turning point for the entire financial sector. The reasons that led many institutional investors to adopt an approach to business and profit that was consistent with environmental and social objectives are manifold. In the light of the majority of the analyses carried out in legal literature, especially in the most recent ones, it can in fact be noted that the integration of the analysis of ESG criteria into investment decisions is likely to benefit the returns of them, creating a lower exposure to risks (such as, among the others, the regulatory risk), and reaching even higher performances if considered from a long-term perspective. Retail investors have also shown a growing interest in socially responsible investments. On the other hand, the now unstoppable movement towards a more sustainable economic model is not only modifying the operations of institutional and retail investors, but is also amplifying the commitment by companies in the Corporate Social Responsibility in order to be configured as an "investable universe" for SRI investments.

Given that the current level of investment is not sufficient to support an environmentally and socially sustainable economic system, it is necessary to reorient capital flows towards sustainable investments, to bridge the so-called green finance gap. Among the financial instruments that are best proving to be able to channel financial resources towards such forms of investment the Green Bonds are to be mentioned. They are a particular category of "Sustainable Development Bonds", representing financial instruments useful for achieving the Sustainable Development Goals, set by the UN 2030 Agenda and, at the same time, one

of the most important tools of Impact Investing, which represents the most recent of the SRI strategies. An element that characterizes the issuance of Green Bonds is the use of the proceeds, which must be specifically aimed at financing environmental or climate change projects, an element that makes them perfectly suitable and aligned with the SDGs.
The awareness of international institutions and the European Union, in particular, has led to the development of new regulatory standards, such as the European Taxonomy of Sustainable Activities and the EU Green Bond Standard, aimed at filling the existing gaps in the definition of what a green project is or in terms of evaluation standards of the "greenness" or goodness of the issue and verification of the related reporting, in order to reduce the risk of greenwashing, which causes detriment to investors.

The project has also considered the theme of socially responsible investments in their evolution, with a focus on the characteristics of the financial instrument of Green Bonds and the related market, following a multidisciplinary approach: in fact the project has offered not only an economic analysis of the SRI that was performed under the specific lens of their temporal evolution, but also of their development in the scientific literature, and a purely financial examination of the green bond instrument, considered in its peculiar and evolutionary aspects, finally considering the problems that entail more specifically legal aspects.
The historical development of socially responsible investments, a financial activity that in recent decades has gone from being a niche practice, mainly inspired by the religious principles of the groups that supported it at the beginning of the 20th century and, more significantly from the 1960s, to a real mainstream risk analysis strategy for institutional and retail investors. New light has been shed over the progresses recorded by the regulatory activity in this sector, in a process that is increasingly moving in the direction of an international legislative harmonization, where the European Union is one of the major protagonists. A special focus has been dedicated to the presentation of a brief analysis of the European Action Plan on Sustainable Finance and of the latest initiatives that the European Commission has undertaken in support of the economic recovery of the continent after the crisis caused by the pandemic from Covid-19.
A critical review of the main theoretical results that economic literature has provided in the field of socially responsible finance has been offered, too, with a specific focus on SRI. The analysis carried out allows to highlight how the works that have so far dealt with SRI have mainly focused on their profitability compared to traditional investments and the research has been mainly based on empirical approaches. However, the conflicting results and the lack of clear consensus on SRI performance are attributable not only to different sampling periods, different methodologies or different empirical approaches employed by researchers, but also to the fact that the theoretical foundations of such empirical works have been overlooked. For example, some empirical studies have not taken into due consideration the role of externalities, which has led to underestimate the effects that SRIs can have on the environmental and economic-financial sustainability of companies. In this regard, the project has highlighted that in the last decade, and even more in recent years, some theoretical models have been used, albeit still limited from a numerical point of view, to take into account environmental externalities. These models, with a slid theoretical foundation, have enriched the set of implications in terms of the effects that SRIs can have on the economic system and on the environment, both in the short and in the long term.

An updated review of the main results provided by such theoretical works has been created, underlining their limits and suggesting possible avenues for future research. In fact, the project has highlighted that a lot of work is still to be done on the subject - the results to date are scarce and far from unambiguous - in order to analyse the effectiveness of the various SRI practices in reducing market risk, in 'addressing environmental and social externalities, as well as in guiding resources to stimulate the sustainable growth of developing economies.
A focus on the discussion about the Green Bond instrument, dealing with its characterizing elements has been offered, as well. The project has studied the defining profiles of the Green Bond, in its capacity as an Impact Investing and Sustainable Development Bond instrument. It also analysed the characteristics defined by the Green Bond Principles, drawn up by ICMA and aimed at defining the main elements characterizing the issue of the instrument in question. In light of the limits of GBP and the need to set standards to reduce the risk of greenwashing and at the same time allow investors to compare the various issues, the various initiatives implemented by the Union have been analysed. The process that led to the drafting of a Taxonomy of Sustainable Activities and of an EU Green Bond Standard has been taken into consideration, the characteristics of which have been outlined in a timely manner, in order to carry out a comparative analysis with the GBPs. An examination, albeit brief, of the Green Bonds market in its main evolutionary features has also been offered, in order to grasp the various trends in progress and potential future developments. The final goal is to overcoming the persistent criticisms in relation to this instrument that still has a preeminent position, both from a qualitative and quantitative point of view, within the Sustainable Development Bonds and an important role in the pursuit of sustainable finance at a global level.
Finally, the project has offered a test of the strength of the regulatory context in which the green bond market is developing and its adequacy to allow for rapid and growing development. After having drawn the peculiar characteristics of this market, the project took into account the main criticalities from a legal point of view - which can be found mainly, on the one hand, in the absence of a homogeneous definition system at national and international level and in the consequent confusion that this creates in and for the market and, on the other hand, to the partial ineffectiveness of the legal instruments currently available to contrast the phenomenon of greenwashing. Subsequently, the regulatory solutions currently available with reference to the Italian legal system, as well as those currently being examined by the European legislator, have been analysed. The field of investigation has been limited to the issues of corporate green bonds, leaving out those of banks and public institutions, subject to a regulatory framework that is partly different, but was anyway able to offer a useful tool for further investigation.