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*EU sustainable finance taxonomy and the use of platforms. A helpful
mixture for sustainable finance*



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1. Sustainable and climate finance. An overview

Sustainable finance is an interdisciplinary research field that combines finance, economics, science, and organisational strategy. It focuses on the financial implications for industries and businesses of environmental change, creating the preconditions for a transition to a sustainable economy, tackling pressing environmental threats as effectively as possible and finding solutions to protect ecosystems (sources of public goods). Environmental finance also consists of instruments that promote “green” trade and it is situated between traditional finance, solely oriented towards economic returns, and philanthropy, that aims exclusively at the creation of social value. Sustainable finance may be more oriented towards the former, excluding those operating in controversial sectors such as armaments, or the latter, conditioning performance to social value¹.

Initially linked to sustainable projects with short-term returns, this type of finance has begun to encompass the more long-term projects of environmental issues². Indeed, these projects seek not only to yield economic returns, but also socio-environmental benefits by evaluating non-financial returns in investment strategies³.

The aim of this type of finance is to promote long-term development of economic activity which is environmentally compatible with the impacts of climate change; this may be done by restricting those who invest in so-called

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¹ A. DEL GIUDICE, *La finanza sostenibile*, Giappichelli Editore, Torino, 2019, p. 2.

² D. SCHOENMAKER, *A Framework for Sustainable Finance*, in *SSRN*, 2019, pp. 1 ss.

³ M. MALAGUTI, “Sviluppo” e diritto internazionale dell’economia, in E. TRIGGIANI ET AL. (a cura di), *Dialoghi con Ugo Villani*, Cacucci Editore, Bari, 2017, pp. 873 ss.

brown companies and encouraging the further development of environmentally compatible technologies and clean energy systems⁴.

Since the financial crisis of 2008, finance has been seen negatively mainly due to its lack of connection to the real economy. Indeed, apart from scholars and experts who are aware of the benefits of finance, its speculative excesses and manipulative characteristics have highlighted the possible negative effects that finance can have if it is managed by people who do not care about the consequences of their behaviour. This detachment from the real economy has given rise to the need to create a new finance capable of reconnecting with the real economy through measurable factors such as ESG (Environment, Social and Governance)⁵. This new financial approach also pushes towards new behaviours that include the creation of social value in investment activities.

Although there is no single definition of sustainable finance, it can be regarded as finance that supports sustainable development in three combined dimensions: economic, environmental, and social⁶. Since there isn't a unique definition, the European High Level Expert Group on Sustainable Finance considers this type of finance based on two imperatives: its contribution to inclusive and sustainable growth and climate mitigation; the strengthening of financial stability through the incorporation of ESG factors into investment decision-making processes⁷. An undoubtedly shared aspect of this type of finance is the fact that it involves long-term investments that do not generate immediate profits, unlike traditional finance⁸. Obviously, the long-term perspective does not mean that the investor owns every single asset for an indefinite period of time, as he or she is capable of disinvesting if the pre-set objectives do not pan out or if the company does not carry out the

⁴ E. FRANZA, *Il Piano d'azione europeo sulla finanza sostenibile: il punto sullo stato di realizzazione*, in *Dir. econ.*, 103, 2020, pp. 675 ss., p. 680.

⁵ The E concerns environmental criteria such as respect for and protection of the environment; the S concerns social criteria such as respect for human rights, occupational safety and health standards; the G concerns governance, i.e. the structure and organization of the company, from the composition of bodies to codes of ethics, transparency, etc.

⁶ A. DEL GIUDICE, *op. cit.*, p. 7. UNEP, *Aligning the financial system with Sustainable Development. The Coming Financial Climate. The Inquiry's 4th Progress Report*, 2015, in <https://www.unep.org/resources/report/aligning-financial-system-sustainable-development-coming-financial-climate>.

⁷ European Commission, *Action Plan: Financing Sustainable Growth*, Brussels, 8 March 2018, COM(2018) 097 final, p. 2.

⁸ EU High-Level Expert Group on Sustainable Finance, *Financing a Sustainable European Economy*, Final Report, 2018, pp. 6-9.

predetermined project or strategy. However, for long-term orientation to yield sustainable results, it is necessary for investors to fully integrate ESG considerations into their decisions, which also reduces investment risks⁹. Indeed, it is difficult to project cash flow estimates in climate mitigation projects, since many of their future benefits take the form of reduced social costs (such as greenhouse gases) for which there is not yet an adequate price that will be arbitrarily defined by political trade-offs¹⁰. In this regard, regulation is essential, being able to oblige economic actors to include social and environmental impacts in their decision-making process or to require economic actors to disclose information to their stakeholders (investors, consumers) to make more informed decisions.

Sustainable finance was defined after the first Earth Summit in Rio in 1992 by the United Nations Environmental Programme (UNEP) as any practice of the financial institution that supports and facilitates sustainable development¹¹. In particular, the UNEP FI, a partnership between UNEP and the financial industry, was launched in 1992. It now includes more than two hundred members (financial institutions for the most part) who commit to the sustainable finance principles set out in the UNEP Declaration of Commitment of Financial Institutions on Sustainable Development¹². In subsequent years, there have been several initiatives on sustainable finance by UN agencies (e.g., the Principles for Responsible Investment in 2006) or other international bodies (such as the Financial Stability Board in 2017). In 2017, several central banks and banking supervisors set up the Network for Central Banks and Supervisors for Greening the Financial System (NGFS) at the Paris “One Planet” Summit to promote useful practices to pursue a green transition in the banking sector. At the Global Roundtable in November 2018, the Principles for Responsible Banking were approved and published in 2019¹³.

⁹ S. CAVALIERE, *La prospettiva dei green bonds per la finanza sostenibile*, in *DPER Online*, 1, 2020, pp. 1 ss., p. 6; A. DEL GIUDICE, *op. cit.*

¹⁰ R. GUTTMANN, *Eco-capitalism*, Palgrave Macmillan, London, 2019, p. 198.

¹¹ B. RYSZAWSKA, *Sustainability transition needs sustainable finance*, in *DOAJ*, Vol. 5, 1, 2016, pp. 185 ss., p. 188.

¹² https://www.unepfi.org/fileadmin/statements/fi/fi_statement_it.pdf.

¹³ UNEP FI, *Principles for Responsible Banking*, 2019, in <https://www.unepfi.org/banking/bankingprinciples/>.

Within sustainable finance there is climate finance, which consists solely of mitigation or adaptation related financial flows between and to states¹⁴. Climate finance is regulated by Art. 9 of the Paris Agreement, which is in line with Art. 2.1(c), that calls for making financial flows consistent with a path towards low greenhouse gas emissions development that is climate resilient. This translates into embedding “green finance” into a wider approach to sustainable development. The aim of Art. 2(1)(c) is to collect funds to enable vulnerable countries to enhance their resilience and growth toward low-carbon finance, by calling for investment in new and clean technologies and divestment from fossil fuels and other environmentally polluting practices. Then Art. 9, to address the needs of developing countries, establishes the climate finance leveraging as a worldwide endeavour to stimulate private financial flows via public interventions. It differentiates between developed countries, which *must* provide financial resources, and developing countries, which must be supported in their efforts to mitigate and adapt and *can*, on a voluntary basis, provide financial support¹⁵. In addition, developed countries must provide a report every two years on what they have provided to developing countries, which are encouraged to do so on a voluntary basis. The article also refers to the broad utilization of a range of funding resources, instruments, and channels including private one, although they are not mentioned in an explicit way. Indeed, it is recognised the role of public funds that, through a variety of different measures (financial, political, and public strategies) can stimulate the private sector to provide climate finance contributions.

Although it is with the Paris Agreement that climate finance is regulated in a more precise manner, already Article 4(3) of the 1992 Rio Convention required developed countries to provide new and additional financial resources to meet the costs incurred by developing countries in formulating and implementing climate-related policies. Some authors believe that Art. 9(1) of the Paris Agreement is a merely continuation in terms of commitments with Art. 4(3) of the Rio Convention, with no new engagements taken¹⁶. In addition, the

¹⁴ Climate finance has different impacts on national economies. For example, it has a potentially negative impact on the economy of Brazil, where sectors such as metals, electricity and gas are developed due to a high level of production and demand, unlike India, which invests in wind and hydro power projects.

¹⁵ Art. 9(4), Paris Agreement.

¹⁶ The authors refer to the phrase «continuing to fulfil their obligations under the Convention». In J. GASTELUMENDI-I. GNITKE, *Part II Analysis of the Provisions of the Agreement*, 14 *Climate*

1992 Convention establishes the Global Environmental Facility (GEF) as a provisional operational entity of the financial mechanism (Art. 21, para. 3) and allows developed countries to provide funding even outside their own mechanism through bilateral channels (Art. 11, para. 5), with no decision taken on adaptation measures and projects that could be financed.

The need for adequate and predictable funding was taken up by the 1997 Kyoto Protocol, which, with the establishment of the Clean Development Mechanism (CDM)¹⁷, established that part of the revenues collected should be invested in adaptation policies in the countries most affected by climate change (Art. 12, para. 8). This led to the establishment of the Adaptation Fund (AF) in 2001 at COP7¹⁸, with the provision to allocate 2% of proceeds from Certified Emission Reductions (CER) sales and other voluntary contributions from Annex I countries to developing countries. However, CDM focused only on mitigation and emphasised private funding over public aid, even if it succeeded in generating a substantial amount of investment in developing countries. This caused the AF to lag.

In 2009, at COP15 in Copenhagen, countries committed to provide new and additional resources totalling \$30 billion for the period 2010-2012, balanced between mitigation and adaptation, and \$100 billion per year by 2020 (then extended to 2025) from public and private sources and through bilateral and multilateral channels. To this end, the Green Climate Fund (GCF) was established to maximise public finance and attract private one. The GCF was then renamed at the next COP as the operational entity of the financial mechanism of the 1992 Convention together with the GEF.

In the coming years, the negative impacts of climate change will increasingly emerge as well as the first results of a society tending towards a reduction in the use of fossil fuels. The establishment of a 'green' society will orient banks, insurance companies and investors to better manage climate-

Finance, in D. KLEIN ET AL. (eds.), *The Paris Agreement on Climate Change: Analysis and Commentary*, Oxford University Press, Oxford, 2017, p. 243.

¹⁷ With the CDM, Annex I countries of the 1992 United Nations Framework Convention on Climate Change implement emission reduction projects in non-Annex I states, that are not subject to the Kyoto Protocol's quantitative reduction limits. With this CDM, undeveloped countries gain social, economic, and environmental benefits, while developed investor countries receive Certified Emission Reductions (CERs) that are useful in the pursuit of environmental goals.

¹⁸ COP stands for Conference of the Parties of the 1992 United Nations Framework Convention on Climate Change. During these COPs states can annually meet to discuss and agree on climate issues.

related risks, leading to a new market for financial instruments. To date, however, sustainable finance is not as developed as it should be, especially in long-term investments. Indeed, although long-term movements are beginning to be considered, investors are fundamentally unprepared to deal with global warming, which is considered a very long-term event and therefore irrelevant to current corporate policies¹⁹. For example, there is still insufficient doctrine demonstrating the connection between climate change emission standards and investment returns, as well as the fact that financing renewable energy sources or energy efficiency currently costs more than conventional projects²⁰. Furthermore, although investors benefit financially from the reduction of their carbon footprint, there is not always sufficient motivation for them to switch.

1.1. *The Green Climate Fund*

The Copenhagen Accord stipulated that contributions by developed countries should be adequate in amount, predictable, sustainable, scaled up from previous ones, accessible to all most vulnerable populations, equitably shared between adaptation and mitigation, transparent, and prioritised towards least developed countries, small island states, and African states²¹. Through the Green Climate Fund (GCF), as outlined above, the international community has pledged to gather at minimum \$100 billion per year for mitigation and adaptation to climate change in developing countries. However, few provisions have been dictated on how to spend these financial resources, merely stating a 50:50 split between resources to be allocated to mitigation and those to be allocated to adaptation. The Agreement does not indicate either how to raise these finances or how to allocate responsibility among states to incentivise them to invest. In addition to this, participation in the Fund is entirely voluntary, and developing countries, the ultimate recipients of the funds, complain that the contributions made by developed states are merely a reallocation of resources

¹⁹ EU High-Level Expert Group on Sustainable Finance, *Financing*, cit., p. 23. See also R. DE-FRIES ET AL., *The missing economic risks in assessments of climate change impacts*, Grantham Research Institute on Climate Change and the Environment, London, September 2019.

²⁰ Z. ZHANG-A. MARUYAMA, *Towards a Private-Public Synergy in Financing Climate Change Mitigation Projects*, in *Energy Policy*, 29, 2001, pp. 1363 ss.

²¹ W.P. PAUW ET AL., *Private finance for adaptation: do private meet public ambitions?*, in *Climate Change*, 134, 2016, pp. 489 ss., spec. pp. 493-496.

and not an allocation of new ones²². We are currently a long way from reaching the \$100 billion target, but several donors and institutions have started to approve more detailed financing plans that are expected to lead to the target being reached in 2023. The delay is mainly due to the lack of timely regulatory forecasts, but also to the lack of predictability of adaptation funding, low grant rates and difficulties in accessing climate finance, especially by poor and vulnerable countries²³.

As a priority, rules should be established in developed countries governing the collection of climate finance contributions to ensure greater stability. Moreover, a well-structured fund that considers the needs and priorities of states can certainly play a key role in promoting the realisation and solidity of a coalition between nations. This will persuade developing countries to participate in mitigation policies and facilitate negotiation processes. To date, numerous scholars²⁴ have tried to identify appropriate financial instruments for the growth of the Green Climate Fund but have failed to determine them. Moreover, in theory, the resources collected should be distributed with a preference for those countries most vulnerable to climate change²⁵. Despite this, a study²⁶ shows that developing countries with the highest CO₂ emissions, the largest carbon removals and the lowest levels of gross domestic product tend to be selected as recipients of climate change mitigation finance²⁷. Indeed, many poor countries find it difficult to attract private investment and prefer to rely on scarce grants (which create debt and have very high interest rates) rather than loans²⁸.

²² S. NIGGOL SEO, *Beyond the Paris Agreement: Climate change policy negotiations and future directions*, in *RSPP*, Vol. 9, 2, 2017, pp. 121 ss., p. 134.

²³ A. BHATTACHARYA-N. STERN, *Beyond the \$100 billion: financing a sustainable and resilient future*, Grantham Research Institute on Climate Change and the Environment, London, 2021, p. 2.

²⁴ L. CUI-Y. HUANG, *Exploring the Schemes for Green Climate Fund Financing: International Lessons*, in *World Development*, Vol. 101, 2018, pp. 173 ss., spec. pp. 174-175.

²⁵ African countries based on their economic capacity and climate change impacts. L. CUI-Y. HUANG, *op. cit.*, p. 174.

²⁶ A. HALIMANJAYA-E. PAPYRAKIS, *Donor characteristics and the allocation of aid to climate mitigation finance*, in *CCE*, Vol. 6, 3, 2015, pp. 1 ss., pp. 14-38.

²⁷ R. LYSTER, *Climate Justice, Adaptation and the Paris Agreement: a recipe for disasters?*, in *Env. Polit.*, Vol. 26, 3, 2017, pp. 438 ss., p. 453; L. CUI-Y. HUANG, *op. cit.*, p. 173.

²⁸ A. THOMSON, *The Global Regime for Climate Finance: Political and Legal Challenges*, in C.P. CARLARNE-K.R. GRAY-R. TARASOFSKY (eds.), *The Oxford Handbook of International Climate Change Law*, Oxford University Press, Oxford, 2015, p. 155.

Access to the Fund's resources is open to all developing countries that are Parties to the 1992 Framework Convention. In particular, the Fund will finance costs for activities that enable and support enhanced action on adaptation, mitigation, technology development and transfer (including carbon capture and storage), capacity building and preparation of national reports by developing countries. In addition, as stated above, the Fund was established with a dual objective of financing climate change mitigation and adaptation in a 50-50 ratio²⁹. However, several studies³⁰ show that most of the available funds are allocated to mitigation, which involves higher costs, unlike adaptation. This is because stakeholders are generally more incentivised to invest in activities that can also generate economic and social returns for them, rather than in adaptation activities in countries most affected by the climate and far from the investment locations. Indeed, in such cases, the utility is often perceived as unpredictable and therefore risky in terms of economic returns/revenues. On the other hand, mitigation often concerns energy, transport, efficiency, and agro-industrial sectors, which directly involve the private sector. On the contrary, adaptation is much more difficult to exploit and less attractive to private sector investors as measures are often locally focused and the resulting positive externalities are much harder to sell as a commodity.

Anyhow, the GCF has been able to mobilise substantial investments by stimulating private financing, multiplying the funds generated and opening markets to new investments. However, this has also incentivised the Fund to prioritise certain projects over others, particularly those mitigation projects that are more profitable and financially attractive. This has led some scholars to view the Fund as a kind of bank that creates returns on its investments and fails to provide sufficient funding for adaptation projects, particularly in developing countries³¹. In this regard, several instruments have been proposed for a more

²⁹ However, the July 2021 report of the GCF shows that \$4.4 billion was invested in mitigation and \$1.9 billion in adaptation for the approved projects. In https://www.greenclimate.fund/sites/default/files/document/gcf-project-portfolio-en_1.pdf. See also Green Climate Fund, *GFC Handbook*, June 2021, in <https://www.greenclimate.fund/sites/default/files/document/gcf-handbook-june2021.pdf>.

³⁰ L. CUI-Y. HUANG, *op. cit.*, p. 175; J. GASTELUMENDI-I. GNITKE, *op. cit.*, p. 246; UNFCCC - Climate Finance Unit, *Roadmap to US\$100 Billion*, 2019, p.11; A. THOMSON, *op. cit.*, p. 154.

³¹ F. BASSETTI, *The Green Climate Fund Must Focus on Adaptation*, 14th November 2019, in <https://www.climateforesight.eu/jobs-growth/green-climate-fund-adaptation>.

correct allocation of funds among these countries, but no definitive scheme has yet been implemented.

Certainly, the use of an investment *vademecum* such as the EU Sustainable Finance Taxonomy together with the implementation of the use of platforms to foster dialogue between stakeholders will increase the collection of financial resources, as it will be discussed below.

2. *The use of ESG factors: how to increase investments in sustainability*

The Intergovernmental Panel on Climate Change's Special Report on Global Warming estimated that limiting the global temperature increase by 1.5°C requires an average annual investment in the energy system of about \$2.4 trillion between 2016 and 2035, corresponding to about 2.5% of global GDP³². At the same time, the European Commission has assessed that to achieve the 2030 targets of the European Green Deal, an additional €260 billion of investment per year is needed, about 1.5% of 2018 GDP³³. According to the Commission, these investments will generate significant benefits to avoid catastrophic climate change, reduce dependence on imported fossil fuels, and provide a powerful stimulus for innovation and job creation.

However, building a climate-neutral economy requires not only large-scale investment in low-carbon infrastructure or retrofitting of existing infrastructure, but also a rapid phase-out of financial flows into carbon-intensive activities. The transition will have to be quick and must take place, according to some scholars, within the next five-ten years³⁴. However, on the other hand, the potential lock-in of investments in carbon-intensive activities could generate new sources of risk to financial stability and consequently delays in the transition.

In Europe, the link between the financial system and sustainability has grown in recent decades, especially with the 2011 «Roadmap for moving to a

³² Intergovernmental Panel on Climate Change (IPCC), *Special Report on Global Warming of 1.5 Degrees*, World Meteorological Organization, Geneva, 2018.

³³ European Commission, *The European Green Deal*, Brussels, 11 December 2019, COM(2019) 640 final, p. 17.

³⁴ S. DIKAU-N. ROBINS-U. VOLZ, *Climate-neutral central banking. How the European System of Central Banks can support the transition to net-zero*, Grantham Research Institute on Climate Change and the Environment, London, May 2021, p. 4.

competitive low-carbon economy in 2050»³⁵. With this Communication, the European Commission identified investment needs for a green transition, recognising that financial markets tend to neglect long-term risks and that public funding can stimulate a multitude of private sector investments³⁶. Indeed, public budgets can facilitate the transition to a resilient low-carbon society and can be used to mitigate risks; however, they will never be able to fully finance the transition to a sustainable and resilient low-carbon economy without private funds³⁷.

Given the growing concerns about global warming, also companies will have to manage the risks and financial consequences of climate change as part of good business practice. Indeed, a company that loses official legal permission, such as rights to emit carbon, risks protest from the community, boycotts from customers and investors, and alienation of suppliers and employees³⁸. To this end, Sustainable and Responsible Investments (SRI) play a central role. They finance projects with an impact on the environment, society, and good corporate governance (ESG) in a medium to long-term perspective³⁹. SRIs are investments with social responsibility elements based on two different approaches: decarbonisation of the portfolio and green investments in Real Assets (such as renewable energy or energy efficiency). For this purpose, ESG factors are helpful in investing in sustainability as they are intended to generate financial returns while taking care of the environment and present and future generations. The integration of ESG factors allows to foresee potential business downturns and to detect the optimal investment opportunities with long-term positive effects on returns. A survey conducted by the NGO Carbon Disclosure

³⁵ European Commission, *A Roadmap for moving to a competitive low carbon economy in 2050*, Brussels, 8 March 2011, COM(2011) 112 final.

³⁶ European Commission, COM(2011) 112 final, pp. 11-12.

³⁷ D. CLARINGBOULD ET AL., *Sustainable Finance: The European Union's Approach to Increasing Sustainable Investments and Growth – Opportunities and Challenges*, in *VJW*, Vol. 88, 2, 2019, pp. 11 ss., p. 13.

³⁸ B.J. RICHARDSON, *Fossil fuels divestment: a strategy for sustainability?*, in C. GAMMAGE-T. NOVITZ (eds.), *Sustainable Trade, Investment and Finance Toward Responsible and Coherent Regulatory Frameworks*, Edward Elgar Publishing, Cheltenham, 2019, p. 287.

³⁹ D. BERARDI-F. CASARICO-V. MOSSO-S. TRAINI, *I finanziamenti "green" nei servizi ambientali*, in *Refricerche.it*, 2019, p. 4. See also B.J. RICHARDSON, *Climate Finance and its Governance: Moving to a Low Carbon Economy Through Socially Responsible Financing?*, in *ICLQ*, Vol. 58, 2009, pp. 597 ss.

Project⁴⁰ found that companies are starting to identify climate change risks and that the opportunities⁴¹ will outweigh the risks⁴².

In 2006, the United Nations endorsed the Principles for Responsible Investment (PRI) to integrate ESG factors into investment practices. These are voluntary principles that only require the annual publication of a report containing responsible investment policies. PRIs aim to understand what effects ESG factors have on investments while assisting signatories. However, currently, investments in sustainable assets are limited due to the lack of reliable ESG data and the absence of transparency and clarity on how this data are integrated into investment policies⁴³. In particular, according to Schoenmaker and Schramade⁴⁴, there are four reasons why ESG factors are currently unreliable ratings: they poorly focus on material issues, so it is common for negative material aspects to be obscured by positive non-material ones; much of the information on which rating systems are based is voluntary and therefore difficult to verify, benefiting large companies that can invest more in sustainable communication to the detriment of smaller ones; scores are usually based on operations and not on corporate products, with the consequence that companies operating in non-sustainable sectors such as tobacco are rewarded; it is difficult for companies to individually carry out an accurate assessment of ESG performance and each analyst usually has to cover about seventy companies at the same time. So, although a big step forward has been made with SRIs, this new financial mechanism is struggling to gain a foothold due to institutional and market barriers.

Also, related to climate finance, financial stability and risks⁴⁵ need to be taken into account, since much of the market is directly or indirectly dependent on fossil fuels. So-called brown companies, which depend on non-renewable

⁴⁰ <https://www.cdp.net/en/companies/companies-scores>.

⁴¹ Consisting of new products and services, increased efficiency of energy resources and increased use of renewable resources resulting in energy savings.

⁴² Linked to the occurrence of natural disasters and the increase in the price of carbon emissions.

⁴³ M. SIRI-S. ZHU, *L'integrazione della sostenibilità nel sistema europeo di protezione degli investimenti*, in *Banca Impresa Soc.*, 1, 2020, pp. 3 ss., p. 20.

⁴⁴ D. SCHOENMAKER-W. SCHRAMADE, *Investing for Long-Term Value Creation*, in *RSM Erasmus*, 1, 2018, pp. 1 ss.

⁴⁵ Carbon Tracker Initiative, *Unburnable Carbon – Are the world's financial markets carrying a carbon bubble?*, CTI, 2011; Green European Foundation, *The Price of Doing Too Little Too Late. The impact of the carbon bubble on the EU financial system*, Vol. 11, 2014; Center for International Environmental Law, *Trillion Dollar Transformation: Fiduciary Duty, Divestment, and Fossil Fuels in the Era of Climate Risk*, CIEL, 2017.

sources, need to review their business models to make them compatible with sustainable development; however, this could harm them, especially if the transition is abrupt⁴⁶. Therefore, a clear policy based on ambitious and uniform long-term strategies is needed to mobilise finance towards a green transition. This will lead to an increase in green practices and a shift away from fossil fuels.

Another essential aspect to stimulate sustainable investments is what has been defined by the European Commission as *blending*, i.e., the combination of EU financial support with public and private funding. Indeed, through blending, risks are reduced for the private sector, which becomes more willing to invest in high-risk sectors in which the public also co-invests⁴⁷. This can be done through platforms as it will be underlined in next paragraph. However, the absence of coherent national frameworks and policy environments for mainstreaming climate change adaptation may deter the private sector from investing⁴⁸. A solution to this has been provided by the EU with its taxonomy, which will be discussed later.

3. The collection of public and private financial resources through platforms

The climate crisis is too big, too serious, and too urgent to rely only on the resources of public institutions and banks. Today, the private sector handles vast sums of money, but just a portion is dedicated to climate investments. However, the private sector is reluctant to invest in renewables, also because of the cheaper costs of fossil fuels, although having an unprecedented opportunity to provide the investment needed to spur innovation and create flourishing climate markets, ranging from green infrastructure, clean energy or climate-resilient agriculture. Given the constraints of public finance, the financial flows to make a transition to a carbon-neutral society can only be mobilised through the private sector, revising the financial system by guaranteeing its financial

⁴⁶ European Systemic Risk Board, *Too late, too sudden: Transition to a low-carbon economy and systemic risk*, RSRB ASC Report, 6, 2016.

⁴⁷ F. LAMPERTI-M. MAZZUCATO-A. ROVENTINI-G. SEMIENIUK, *The green transition: public policy, finance and the role of the State*, Sant'Anna School of Advanced Studies, Pisa, 2019, p. 6.

⁴⁸ B. ADHIKARI-L.S. SAFAEE CHALKASRA, *Mobilizing private sector investment for climate action: enhancing ambition and scaling up implementation*, in *J. Sustain. Finance Invest.*, 2021, pp. 1 ss., pp. 14-15.

stability and transparency⁴⁹. Also, to get the private sector, it is necessary to increase public funding by proving the cost-competitiveness of returns and risks in comparison with conventional investments. The United Nations Framework Convention on Climate Change (UNFCCC) is focusing on supporting countries in establishing and enforcing national policies to accelerate the mobilisation of private financial resources by developing innovation models. Furthermore, in the context of the GCF, the Private Sector Facility (or PSF) was established to allow the Fund to finance directly and indirectly adaptation and mitigation activities at the international, national, and regional levels⁵⁰.

So, to incentivize the private sector to make investments in sustainability and enhance sustainable and climate finance, international and national platforms have a key role. As a matter of fact, the European Sustainable Finance Platform plays a central role in enabling cooperation among private and public stakeholders. The Platform is ruled by Art. 20 of Regulation 2020/852/EU and it is subject to Commission Decision C(2016)3301 laying down cross-cutting rules for the establishment and functioning of expert panels. The Platform is a public-private structure of governance that brings together market participants and experts with public sector bodies, such as the European Environment Agency (EEA), the European Supervisory Authorities (ESA), the European Investment Bank (EIB) and the EU Statistical Office (Eurostat). The Platform checks financial taxonomy's developments to ensure its gradual expansion and adaptability to sustainability, together with the execution of activities to achieve the goals of sustainable finance. It further supports the Commission with the technical drafting of delegated acts for the EU taxonomy implementation. The Platform operates under the principle of transparency and has the ability to counsel the European Commission on future sustainable finance initiatives. It also will provide a central forum for discussion between policy makers and other stakeholders to increase public awareness and assure that sustainability stays a continuing feature of the design of policies over time. Since the Platform is a permanent

⁴⁹ G. HANSEN-D. ECKSTEIN-L. WEISCHER-C. BALS, *Shifting the Trillions. The Role of the G20 in Making Finance Flows Consistent with Global Long-Term Climate Goals*, German Watch, Berlin, 2017, p. 42.

⁵⁰ The PSF is also increasing its collaborative outreach efforts with the private insurance industry to further develop and deploy impact insurance arrangements to fill the adaptation financing gap that is still significant in several developing countries.

expert group of the European Commission, it will aid the Commission in the development of sustainable finance policies. The Platform has theoretically limitless duration, given the different tasks provided by the Taxonomy Regulation, and it works via a plenary session with a full composition of fifty-seven members and eleven observers, assisted by subgroups. The plenary serves as a forum to ensure linkages between the concerned subgroups and to endorse in a formal way the Platform's opinions and reports. A wide and fair representation of stakeholders, expertise and perspectives enables the Platform to build its advice grounded in scientific proof, in-depth expertise and practical experience, and to advocate technical selection criteria for a workable European taxonomy consistent with the EU Green Deal's ambitions.

Moreover, during COP26 which took place at the end of 2021 in Glasgow, it was announced the South Africa's Just Energy Transition Partnership between several States (South Africa, France, Germany, the United Kingdom, the United States, and the EU). This partnership brings together all major South African stakeholders supported by the international community to decarbonize the country. Similarly, another partnership that was launched at COP26 is the Global Energy Alliance for People and Planet (GEAPP) between institutions and national partners. This alliance aims to accelerate investments in emerging and developing economies to reach green energy transitions and renewable energy solutions. In particular, it seeks to unblock \$100 billion of public and private money to enhance energy access (reaching one billion people with affordable and renewable energy), tackle climate change (preventing and impeding four billion tonnes of CO₂ emissions) and create jobs over the next ten years⁵¹. Even before COP26, in May 2018, in Italy, in line with the 2030 Agenda and the Paris Agreement, the Ministry of the Environment and Cassa Depositi e Prestiti (CDP) have jointly built an Italian Climate and Sustainable Development Platform (CSDIP) to provide financing for environmental programs and projects in developing countries. This is the first Italian instrument entirely committed to green projects which aims to create synergies between national, EU and international capital in the medium and long term. Based on the CDP-Ministry agreement, different financial instruments (loans, guarantees to cover risks, capital investments and non-repayable investments) will be structured to promote green projects in those countries. The

⁵¹ A. BHATTACHARYA-N. STERN, *op. cit.*, p. 6.

beneficiaries of the interventions will be companies active in climate change mitigation and adaptation projects, with a particular preference for micro, small and medium-sized enterprises⁵².

Private sector involvement is crucial for overall sustainable finance and for the effective functioning of such platforms, given the scale and nature of the investments required. Indeed, to develop green technologies and attract investors such as pension funds or insurers, public spending on research and development, as well as innovative financing and risk-sharing models, may be necessary⁵³. In any case, financing from governments, banks and the private sectors would be best combined. As an example, to innovate financing for climate change adaptation, the public sector could reward donations for clean technologies and economic and financial models could be innovated to mobilise more investments in green technologies. In general, the private sector currently also invests in adaptation in developing countries⁵⁴, but the extent and foreseeability of investment remains uncertain.

Hence platforms can be considered a central tool to discuss and to collect fundings from the private and public sectors. In this regard, it is crucial to apply a standardized system like the European taxonomy that will be discussed in next paragraph. Indeed, this taxonomy must undoubtedly be used as a regulatory example also at the global level to create a model of green investments, to entice the private sector and provide transparency and clarity. In this way, the work within platform will be easier, giving the “common language” spoken concerning sustainable finance by both private and public operators.

4. The EU sustainable finance taxonomy. An efficient regulatory tool

As already mentioned, the private sector is generally reluctant to invest in sustainability. This is due to the lack of clarity and transparency, which does not allow for a comprehensive dialogue between market participants.

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https://www.mite.gov.it/sites/default/files/archivio/allegati/sviluppo_sostenibile/Accordo_CDP.pdf.

⁵³ D. CLARINGBOULD ET AL., *op. cit.*, p. 17.

⁵⁴ For instance, through the Adaptation Private Sector Initiative. <https://unfccc.int/topics/resilience/resources/adaptation-private-sector>.

In this regard, an innovative regulatory mechanism is the so-called sustainable taxonomy. This instrument identifies conditions and criteria according to which a financial product or an investment helps to the EU's sustainable aims; it is then capable of leveraging sustainable funding and ensure a high level of financial stability. Indeed, the absence of a unified taxonomy leads to excessive market fragmentation and barriers for cross-border capital flows, given the existence of different national taxonomies that lead to an excessive increase in costs⁵⁵.

At the same time, such a taxonomy creates comparability between standards, brands, products, and jurisdictions, making market actors to invest more easily and confidently in sustainability. Furthermore, it enhances transparency by decreasing asymmetries of information between end investors, financial intermediaries, and index providers, also increasing reliability of financial ESG products and investor confidence; this allows the engagement of the private sector in low-carbon investments, also shifting production and prompting companies to upgrade their environmental performance to both entice more investment and face lower capital expenses⁵⁶.

Initially focusing on the environmental goals of Paris and the 2030 Agenda, this taxonomy will eventually encompass all ESG factors (including social and governance), which are more difficult to determine due to divergences between different non-financial rating agencies and the variable materiality of the indicators used⁵⁷. Also, it will be developed in stages to enable its full acceptance and integration into financial policies.

The first taxonomy regulation is 2020/852/EU on climate change mitigation and adaptation. Art. 2(1) defines sustainable investment as an investment in one or more economic activities considered sustainable in the meaning of the Regulation. Article 3, on the other hand, indicates the sustainability criteria for economic activities. Indeed, an activity is

⁵⁵ Technical Expert Group on Sustainable Finance, *Taxonomy pack for feedback and workshops invitations December 2019*, 2019. Even before the EU, several authors had already highlighted the need to create a taxonomy for green investments. See, among others, O. SCHMID-SCHONBEIN-A. BRAUNSCHWEIG, *EPI-Finance 2000. Environmental Performance Indicators for the Financial Industry*, Zurich, 2000; J. KEEBLE-S. TOPIOL-S. BERKELEY, *Using Indicators to Measure Sustainability Performance at a Corporate and Project Level*, in *J. Bus. Ethics*, 44, 2003, pp. 149 ss.

⁵⁶ F. SCHÜTZE-J. STEDE, *The EU sustainable finance taxonomy and its contribution to climate neutrality*, in *J. Sustain. Finance Invest.*, 2021, pp. 1 ss., p. 2.

⁵⁷ A. DEL GIUDICE, *op. cit.*, p. 68.

environmentally sustainable if it fulfils four criteria: it must contribute to one or more of the six objectives set out in the regulation⁵⁸; it must not significantly harm another objective («do not significant harm» principle), i.e. the harm must not outweigh the benefit; it must be carried out in compliance with the minimum safeguards set out in Art. 18; it must comply with the technical screening criteria. Thus, an activity, to be included in the taxonomy, must contribute to the pursuit of one of the environmental objectives, even if it is carried out by a so-called “brown” company⁵⁹. Furthermore, to ensure competition in seeking funding for sustainable economic activities, the technical selection criteria should ensure that all relevant economic activities in a specific sector that contribute equally to environmental objectives are qualified and treated the same⁶⁰.

In June 2021, the European Commission approved a delegated regulation on technical screening criteria supplementing Regulation (EU) 2020/852 for determining economic activities that contribute to climate change mitigation and adaptation⁶¹. These criteria must take the form of limit values or quantitative minimum requirements, relative improvements, or a set of qualitative performance requirements. They must then respect the «do not significant harm» principle ensuring an actual positive contribution and a reduction of the negative one regarding mitigation and adaptation to climate change (i.e., avoidance or reduction of greenhouse gas emissions and increase in greenhouse gas removals or long-term carbon storage practices) without significantly harming other environmental objectives. Moreover, these criteria must be verified by an independent third party to ensure their technicality and impartiality as they can be of high technical complexity and require extensive scientific expertise⁶². It is essential to define technical screening criteria for

⁵⁸ Climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy, waste prevention and recycling; pollution prevention and control; protection of ecosystems.

⁵⁹ Indeed, even a company that normally carries out non-sustainable activities can pursue sustainability goals.

⁶⁰ For example, in the energy sector, the wind and solar energy subsectors should be treated equally if the environmental objective is common (to reduce pollutant gases to mitigate climate change). On the other hand, the sub-sector of geothermal energy should be treated differently, since by definition it is not carbon-neutral.

⁶¹ The list of activities and criteria are contained in Annexes I and II of Delegated Regulation (EU) 2021/2139, 4 June 2021.

⁶² Recital 11, Delegated Regulation (EU) 2021/2139.

those economic activities that do not yet have viable alternatives for near-zero emissions (or they exist but they are not yet practicable on a large scale) but that are characterised by a great potential for significant reductions in climate emissions. This implies that these criteria should ensure that activities comply with Art. 10(2) of Regulation (EU) 2020/852 by emitting an amount of gas equivalent to the best performance in the industry or sector, without hampering the spread and development of more sustainable alternatives and without implying a dependence on carbon-intensive assets. Regarding adaptation, the technical screening criteria will undoubtedly have repercussions in all economic sectors that will have to adapt to present and future negative climate effects. However, for an activity to contribute substantially to adaptation to climate change without harming another environmental objective, technical criteria must first be established for those activities already subject to mitigation rules, according to the «do not significant harm» principle⁶³. So, activities pursuing climate mitigation and adaptation should not undermine other objectives, ensuring a classification of environmentally sustainable activities that is in line with environmental integrity. In addition, these criteria should ensure the identification of present and future risks for each activity, implementing adaptation solutions to ensure the minimisation or elimination of losses or impacts on businesses. On 6 July 2021, the Commission adopted a delegated act specifying the content, methodology and presentation of financial and non-financial information that companies are required to report on the alignment of their activities to the EU taxonomy⁶⁴.

Thus, a fully harmonised environmental taxonomy with a high level of granularity is the preferred option in terms of effectiveness and consistency, as it is also more supported by stakeholders. To this end, a constant update (particularly of technical selection criteria) is necessary to align with technological and scientific developments. Indeed, in January 2022 the taxonomy was expanded including nuclear power plants and natural gas, not included in Delegated Regulation (EU) 2021/2139 despite their potential contribution to the decarbonisation of the EU economy⁶⁵.

⁶³ Recital 42, Delegated Regulation (EU) 2021/2139.

⁶⁴ Delegated Regulation (EU) 2021/2178, 6 July 2021.

⁶⁵ For nuclear power plants, it is foreseen that they cannot be built after 2045 and they will have to have a mechanism for the safe disposal of waste; for natural gas, plants will have to be licensed after 2030, the most polluting plants will have to be replaced, and facilities will have to be con-

Therefore, to conclude, taxonomy provides transparency on which activity is “green”, allowing investors and economic actors to invest in sustainable projects and assets in an informed way. Furthermore, it facilitates green finance initiatives by comparing and marking its objectives, and it contributes to the reduction of investors’ costs in searching for information. Thus, a financial taxonomy helps implementing the integration of green investment both within and outside the European Union, applying the taxonomy to those European investors that invest globally; it also gives an easier gateway into these products to investors, protecting trust and integrity in the green financial market.

In addition to these immediate benefits, having a universal taxonomy leads to several secondary and indirect positive impacts on the environment through increased investment in activities and sectors related to, for example, energy efficiency or renewable energy.

However, although taxonomy can be considered the regulatory pivot for the smooth functioning of a sustainable market, it is not without criticalities. While there are some immediate positive consequences, these may not necessarily manifest themselves in the same way in different states, besides the fact that even if the same activities and sectors should be treated equally if they have the same characteristics, it could happen that an activity that does not fit even slightly into the taxonomy is harmed. Also, costs are expected to be high for the parties and broadcasters involved, especially those of developing and updating the Platform. Further costs might then arise from the lack of sufficient dialogue between the players in the market.

Undoubtedly, the compulsory nature of the taxonomy is necessary to avoid excessive fragmentation, but at the same time the new taxonomies for the remaining environmental factors and then for the social and governance factors should be approved with caution. Indeed, there is a risk that the inclusion of a new taxonomy will lead to an activity being considered green for the

verted to run on hydrogen by 2035. Furthermore, it is necessary to ensure that new nuclear power plants use the most advanced solutions resulting from technological progress. Despite the numerous criticisms of these inclusions, this decision is the result of a political compromise to satisfy the interests of France (which largely exploits its nuclear power plants) and Germany (which has invested in natural gas to compensate for the abandonment of nuclear power), as well as those of Eastern European countries that want to end their dependence on carbon by investing in nuclear and gas. In <https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2022-631en.pdf>.

environmental part and not sustainable for another one. This can be overcome by increasing the dialogue with market operators, especially within the platforms, although this may require delays in the approval of the new criteria. Indeed, only a taxonomy that is well accepted and understood by investors can increase green investments that include ESG factors.

Furthermore, according to some authors⁶⁶, to ensure that the taxonomy works well, it would also be necessary to present a list of environmentally harmful activities, since even a brown company can theoretically carry out an activity that is sustainable for the taxonomy. But in this hypothesis, delicate political balances come into play that could lead to the exclusion of certain categories of activities from these investments; however, this could be overcome with the implementation of the Platform's competences.

The EU Platform on Sustainable Finance submitted the final report on the social taxonomy on February 2022. This undoubtedly shows the key role played by the Platform in fostering dialogue on sustainable finance, which is necessary, as it has already been widely emphasised, to outline a taxonomy that is widely embraced by all the participants of the financial market. In addition, extending this tool also outside the European Union will be useful to improve sustainable investments. Indeed, the creation of a mechanism similar to the EU taxonomy to be applied even outside the European territory can stimulate discussion between private and public operators; this can be done by establishing and upgrading platforms.

5. *Conclusions*

The EU taxonomy is a unique and central tool that should be used as a regulatory model globally to create a guide for green investments. This will attract the private sector by ensuring clarity and transparency. Therefore, to steer investment flows towards sustainable practices, the creation and implementation of regulatory tools capable of unobtrusively identifying green activities and practices is essential and, to this end, the use of platforms can be considered fundamental in establishing an informed dialogue between the various actors. For example, as outlined above, although the creation of the

⁶⁶ J. RYDGE, *Aligning finance with the Paris Agreement: An overview of concepts, approaches, progress and necessary action*, Grantham Research Institute on Climate Change and the Environment, London, 2020, p. 16.

GFC has been crucial for the collection of financial resources, no precise agreement has been reached on how to collect these resources. So, the private sector is reluctant to invest when the public sector does not raise financial resources for climate change mitigation and adaptation. As such, the EU taxonomy can be seen as an excellent starting point for increasing confidence in sustainable finance. Indeed, by defining precisely which activities are green, it is possible to boost public investments and attract private ones. Furthermore, the EU Platform on sustainable finance is a forward-looking intervention that can stimulate dialogue between the different players in the financial market. This is indeed crucial to ensure that investments are fully accepted by all operators and to increase sustainable investments.

In conclusion, the EU financial taxonomy and the use of platforms are both interventions that should be transplanted worldwide. Of course, this is challenging, given the many social and economic differences between developing and developed countries. However, the already existing UNFCCC and GCF can be used as a basis to enhance the establishment of a common dialogue between countries; what can be called a *global financial taxonomy* or a *sustainable financial investments handbook*.

ABSTRACT

Luna Aristei – *EU sustainable finance taxonomy and the use of platforms. A helpful mixture for sustainable finance*

Since climate change's negative effects will become increasingly evident in the next few years, it is crucial to create a "green" society. This will direct banks, insurance companies, and investors to better manage climate-related risks, creating a new market for financial instruments. To date, however, sustainable finance is not as developed as it should be, especially in long-term investments, as investors are fundamentally unprepared to deal with global warming. For long-term orientation to produce sustainable results, it is necessary for investors to fully integrate ESG factors into their decisions, as they aim to produce financial returns respecting the environment, present and future generations. However, the urgency and the large environmental, economic, social and health impact of the climate crisis, require global actions that cannot rely solely on the resources of public institutions and banks. As a matter of fact, *blending* together public and private funding is crucial to boost sustainable investments. Nevertheless, there is generally reluctance among the private sector to invest in sustainability since there is a general absence of transparency and clarity, which precludes a comprehensive dialogue between market participants. As a matter of fact, platforms are central to promote this *blending* and sustainable finance, since they can increase the debate and the funding from the private and public sectors. To this end, it is also essential to adopt a standardized system such as the European taxonomy to create a green investment model to attract the private sector and ensure clarity and transparency. Indeed, the EU taxonomy identifies the conditions and criteria under which an investment or financial product contributes to the EU's sustainable goals. This will facilitate the work within the platform by providing the "common language" spoken on sustainable finance by public and private actors.

KEYWORDS: *sustainable finance; climate change; sustainable finance taxonomy; ESG; platforms.*

Luna Aristei – *La tassonomia finanziaria sostenibile dell'Unione europea e l'uso delle piattaforme. Un'efficace sinergia per la finanza sostenibile*

Poiché gli effetti negativi del cambiamento climatico sono destinati a diventare sempre più evidenti nei prossimi anni, è fondamentale l'istituzione di una società "verde". Ciò condurrà banche, compagnie assicurative e investitori a gestire meglio i rischi legati al clima, creando un nuovo mercato per gli strumenti finanziari. Ad oggi, tuttavia, la finanza sostenibile non è sviluppata come dovrebbe, soprattutto negli investimenti a lungo termine, non essendo gli investitori preparati ad affrontare il riscaldamento globale. Affinché l'approccio di lungo periodo produca risultati sostenibili, è necessario che gli investitori integrino pienamente i fattori ESG nelle loro decisioni, mirando a produrre rendimenti finanziari nel rispetto dell'ambiente e delle generazioni presenti e future. Tuttavia, l'urgenza e il grande impatto ambientale, economico, sociale e sanitario della crisi climatica richiedono azioni globali che non possono dipendere solamente dalle risorse delle istituzioni pubbliche e delle banche. Infatti, la combinazione di finanziamenti pubblici e privati è fondamentale per promuovere gli investimenti sostenibili. Ciononostante, il settore privato è generalmente restio a investire nella sostenibilità a causa di una generale assenza di trasparenza e chiarezza che impedisce un dialogo completo tra gli operatori del mercato. A tal fine, le piattaforme sono fondamentali per promuovere tale combinazione di finanziamenti e la finanza sostenibile in generale, potendo stimolare il dibattito e i contributi da parte del settore pubblico e privato. Di conseguenza, è essenziale adottare un sistema standardizzato come la tassonomia europea per creare un modello di investimento verde che attragga il settore privato e garantisca chiarezza e trasparenza. La tassonomia europea, infatti, identifica le condizioni e i criteri in base ai quali un investimento o un prodotto finanziario contribuisce agli obiettivi sostenibili dell'UE. Questo faciliterà il lavoro all'interno della piattaforma, fornendo agli attori pubblici e privati un "linguaggio comune" sulla finanza sostenibile.

PAROLE-CHIAVE: *finanza sostenibile; cambiamento climatico; tasso-*

nomia finanziaria sostenibile; ESG; piattaforme.