

Sustainable finance

Introduction

Sandrine Lemery & Laure Tabouy

The fundamentals of sustainable finance

Sustainable finance: A long history

Grégoire Postel-Vinay

The question of the moral uses of money goes back a long way. Over the years, it has led either to the prohibition of certain practices or destinations, or, more recently, to the encouragement of certain activities or practices in companies and organizations in general. This article takes up and updates a version written in 2011, and describes the criteria used and their main evolutions, which are detailed elsewhere in this issue. It then looks at the economic and industrial stakes involved, particularly with regard to climate change, the geopolitical effects of differentiated approaches, and the implications for public action that the growing importance of these funds may have.

Carbon pricing in an open economy: The example of border carbon adjustment

Raphaël Trotignon

A "carbon price" is a powerful economic incentive to decarbonize existing economic capital, and redirect financial flows towards the development and deployment of low-carbon technologies. But such a carbon price does not exist uniformly across the globe, even though most capital, goods, and services flow easily around the world. In Europe, where the carbon price is high, a new system of carbon adjustment at the border will gradually be put in place to try to neutralize the perverse effects of this incomplete pricing. But while the intention of protecting Europe from unfair competition that would be harmful to industry and the climate is welcome, the architecture that is envisaged for this system actually risks increasing the competitiveness deficit of European industry.

Leveraging sustainable finance research chairs: Transforming higher education and research?

Patricia Crifo

While the development of green and sustainable finance appears to be an important tool for orienting economic activities towards more ecologically and socially responsible paths, higher education establishments

have been developing innovative collaborative platforms over the last two decades, through chairs in green and sustainable finance, in which academics, industrialists, and decision-makers converge to innovate and advance research, teaching, and practices in sustainable finance. This article explores how these chairs can help transform the teaching and research dynamics of higher education through the scientific and technical levers they develop. Regulatory and institutional framework.

Regulatory and institutional framework

What Law for sustainable finance?

François-Guy Trébulle

The legal support for sustainable finance needs specific law, now mainly of European origin, but beyond that, implies that all the Business Law fully integrates sustainability.

For a principle of proportionality to put an end to out-of-step sustainability standards

Alexandre Montay

Since the creation of the Mid-caps category in 2008, France's economic policy has become more attuned to its business structure in all its various forms (VSEs, SMEs, Mid-caps, large businesses). The increase in the number of Mid-caps over the past sixteen years is proof of this. However, European institutions have yet to take account of the production sector as a whole. The powerful legislative measures introduced under the "Green Deal", if they fail to divert the Mid-caps category, risk undermining their competitiveness and, through a crowding-out effect, putting them on the sidelines of financing and growth markets. The imperative of proportionality must apply to sustainability standards.

Sustainability information: The second pillar of standardized corporate information

Patrick de Cambourg

There is a growing need for a second pillar of standardized corporate information, focused on sustainability. While financial data has reached a certain level of maturity, its limitations are evident, including its retrospective nature and focus on tangible aspects. The rise of sustainability information aims to address these gaps by integrating ESG impacts. However, the challenges are numerous: unreliable data, lack of comparability, and fragmented demands. The EU's response, with the Corporate Sustainability Reporting Directive, is

ambitious. It mandates compulsory reporting for large companies and listed SMEs, covering all sustainability issues and introducing an audit regime. The ESRS standards, adopted by the EU, aim to harmonize practices and ensure global coherence. Yet, the inclusion of SMEs is essential, hence the proposal for simplified standards. This transition to sustainable information is crucial for guiding future decisions, requiring concerted efforts at both the European and global levels.

The ISR label, an evolving tool to help investors and savers participate in sustainable finance

Michèle Pappalardo

The ISR label, created in 2016 by the French Ministry of Finance, is intended to encourage fund managers to adopt sustainable finance approaches, and to assure investors and savers of its reality. Originally ambitious, it attracted more and more funds, but was gradually overtaken by progress in sustainable finance, which weakened user confidence. The overhaul of the framework adopted at the end of 2023 therefore aims to strengthen the requirements of the label to restore its credibility. From now on, the approximately 1,200 funds labeled on January 1, 2024 must evolve to adapt to this change, which requires a significant effort on the part of management companies, and will probably lead to the abandonment of the label for some of them. But that's the price of credibility!

The NGFS: A coalition to green the financial system

Emmanuelle Assouan & Antoine Bakewell

Launched in 2017 in Paris at the initiative of eight central banks and supervisors, including the Banque de France, which acts as secretariat, the Network of central banks and financial supervisors for Greening the Financial System (NGFS) now has 137 members and 21 observers, and represents almost 90% of global GDP and GHG emissions. Since its launch, the NGFS has been actively contributing to efforts to take climate risks into account and green the financial system, thanks to a method based on collaboration and experience-sharing between its members and with its partners. This method aims first and foremost to better understand the interdependencies between the financial system and nature in the broadest sense, in order to integrate climate and environmental (C&E) risks into the missions of central banks and supervisors, and, more generally, to mobilize financial players to support the transition to a low-carbon and more sustainable economy.

Caisse des Dépôts and green financing

Éric Lombard

Reducing greenhouse gas emissions require considerable financing needs. In this context, the challenge of green finance is to mobilize additional financial flows for ecological transformation, and to make all investments

compatible with environmental criteria aligned with the objectives of the 2015 Paris Agreement.

As a public financial institution, Caisse des Dépôts is firmly committed to this goal. Its unique model – a combination of lender, investor, and operator – strengthened by ambitious climate commitments and a target of mobilizing €100 billion over the next five years in favor of ecological transformation, provides multiple and complementary capabilities in the service of the public interest and the decarbonization of the economy.

The new opportunities offered by the European taxonomy and the CSRD directive will enable Caisse des Dépôts to better identify, target, and invest in ecological transformation, thus helping to strengthen the Group's ambition.

The Autorité des marchés financiers (AMF) and sustainable finance

Marie-Anne Barbat-Layani

Finance is only sustainable. I deliberately use the present tense, because the time to act is now, not tomorrow. The climate emergency is here, and the financing needs are immense. In France alone, the additional public and private investment needed between now and 2030 to finance the climate transition is estimated at €66 billion per year by the report by Jean Pisani-Ferry and Selma Mafhouz. The Paris financial marketplace has an important role to play in meeting these needs. To better understand the rise of sustainable finance and the key role of regulation, as well as the changes they are bringing about in the strategies of companies and financial institutions, I will develop three key themes: the unique situation of the Paris financial center in the field of sustainable finance; the tandem of market innovation and public regulation; and finally, the role of compass that the Autorité des marchés financiers (AMF) can and must play for the entire ecosystem.

Ten years of sustainable finance regulation in Europe: From financial risk measurement to environmental impact assessment

Gabrielle Siry

Sustainable finance emerged in the wake of the Paris Agreement almost ten years ago today. Since then, financial regulations relating to sustainable finance have been evolving, notably under the influence of an exchange between national law, particularly French law, and European Union (EU) law. From a strict consideration of risk for financial institutions, the focus has broadened to include the impact of financial activities, particularly investments, on the environment. The assessment and classification of these impacts were then extended to the public sphere. New issues are emerging that will shape the future development of sustainable finance law, including the influence of biodiversity loss on financial stability, and the lack of insurance cover for climate-related disasters in the EU.

Banks and institutional investors

Transition and transformation: the dual challenge of sustainable finance

Jean-Laurent Bonnafé

In the face of unprecedented environmental and social challenges, BNP Paribas is convinced that finance can and must be at the service of the transition and transformation of the economy towards more sustainable models. The Group has therefore made the transition for its customers a strategic priority, which implies switching its financing of energy to low-carbon, accompanying the decarbonization of all industrial sectors, and preparing for that of private individuals by seeking solutions to soften its social impacts. Guided by public policy and scientific reports, this transition is mobilizing strong voluntary and commercial commitments, underpinned by a growing regulatory framework. It comes along with a real need for transformation through innovation: in the economy, with the emergence of players dedicated to the development of sustainable solutions; in finance, with offerings tailored to meet the new challenges; and in banking itself, with a corporate culture focused on sustainable finance.

Mobilizing investors for sustainable development: The European example of green, social, and sustainable bond markets

Cyril Rousseau & Tomomitsu Victor Maruta

Launched by the European Investment Bank (EIB) in 2007, green bonds are now issued worldwide, to the order of around 600 billion euros a year in 2024. As the market has grown, so has governance, moving from self-regulation to formal regulatory frameworks. The European Union's framework is the most ambitious, with the most advanced classification of sustainable finance ("the European taxonomy"). This classification should contribute to market transparency and smooth operation, and foster the development of the capital markets union. However, the difficulty of applying the taxonomy risks leading to inaction. The European Commission and the European Sustainable Finance Platform are therefore encouraging a proactive and gradual approach. As Europe's climate bank, the EIB is striving to spearhead the gradual implementation of European standards for sustainable finance.

Sustainable finance: Issues and challenges for insurers

Florence Lustman

By keeping pace with changes in society and anticipating tomorrow's challenges, insurers are key players in the fight against climate change. The investments needed to make a success of the ecological transition and achieve the objectives of the Paris Agreement amount to thousands of billions of euros. Along with protection, investment is one of the two core activities of the insurance business. By choosing to direct their investments towards companies or start-ups

that meet ESG criteria, and by helping them to achieve their objectives, insurers play a leading role.

How can sustainable finance succeed?

Pascal Demurger

At a time when a powerful anti-ESG movement is shaking up the financial world in the United States, and could spread to other continents, the question of the future of sustainable finance is being raised. Even before imagining its triumph one day, the immediate task is to prevent it from stagnating, or even regressing. How can we do this? By doing what those involved in sustainable finance have always done: moving forward with conviction to turn finance around without abandoning rationality, or even the logic of return. This ethic of change is the one that has always driven the French insurer MAIF, and which prevails in the management of its portfolio of 20 billion euros in assets – a source of profitability and positive impact. It's this vision that we want to share, by affirming that a path exists on two conditions: assume a share of commitment to keep the flame burning, and standardize it to pass it on to as many people as possible.

Actuaries and sustainability: In the service of balance

Laurence Bauduin

Actuaries are professionals in the assessment, modeling, and management of economic, financial, insurance, and social risks. As guarantors of the long-term equilibrium of the insurance and financial system, they are involved in the entire value chain of market organizations. With "Solvabilité II", the decade 2010-2020 has seen the importance of the actuarial function in the governance of insurance companies confirmed, and the pace of technological change accelerated. The successive shocks observed since the 2020s, against a backdrop of intensifying climatic, geopolitical, and cyber risks, now place actuaries in the position of experts and benchmark players on a broader spectrum of sustainability-related risks, calling into question the very fundamentals of insurance. At the service of the general interest, the French Institute of Actuaries, which has organized and represented the profession for over 130 years, encourages innovation and interdisciplinarity to support these transitions.

Greening and sustainability: The new reality of corporate financial consulting

Margot Ursin

The European Green Deal has set the objective of a competitive and modern economy. Performance in a modern economy must combine financial and extra-financial results, such as the creation of financial value net of the impacts and costs of business models transformation – with limited or impossible access to certain resources or ecosystem services, zero net greenhouse gas emissions by 2050, etc. – while taking into account

all related social impacts. This new definition of value creation forces companies to juggle between medium- and long-term time horizons for their transition plan and concrete short-term actions with new indicators required by the new regulatory framework. Financial consultancy firms offer a fresh perspective on these issues, highlighting all the funding mechanisms available to companies, thus helping them to find short-term financing levers for their transition plan.

Responsible investors: For what impact?

Marie Brière

There is increasing appetite from institutional and individual investors for socially responsible (SR) investment. In this article, based on a survey of academic literature, we discuss the performance of SR investment, in particular the relationship between firms' corporate social responsibility (CSR) policy and their financial performance. Next, we analyze the impact of shifting investors' preferences towards environmental, social, and governance (ESG) considerations. Finally, we discuss the role of institutional investors' active ownership, which allows them to play a key role and impact on firms and society at large.

Paving the way for a sustainable future by financing start-ups

Fanny Picard

The acceleration of environmental disorders exposes humanity to chaos, hitting the most vulnerable first. Through innovation, start-ups are developing solutions addressing major social and environmental challenges, at the double level of their activities and management practices. Their funding, notably through impact funds, is key to support the transition towards a more inclusive and sustainable economy. It deserves additional commitment from institutional investors, from both an ethical and financial perspective.

Ethical challenges and perspectives

Risky practices or communication errors: Not all shades of greenwashing are created equal!

Anne-Catherine Husson-Traore

In finance, environmental claims are made through marketing, where images of lush nature are used to illustrate investments in financial markets and major stock market indices. This can be considered greenwashing, because of the discrepancy between the promise and the offer. Sustainable finance has many shades of greenwashing, some of which are mainly

communication errors. This article makes the difference with other actions that consist of making strong commitments, such as financing carbon neutrality, but displaying portfolios with a high fossil fuel content, which seems incompatible.

Sustainable finance and digital technology for the financial sector: What ethical challenges do companies face?

Laure Tabouy

The need to channel huge amounts of savings into meeting environmental, health, and social challenges, and ongoing regulatory changes, such as the CSRD, are challenges that make it imperative to rethink the way we invest, finance projects and innovations, and reorganize the financial world.

Finance can make a lasting contribution to the common good only if we succeed in introducing ethics into both theory and practice. This article sets out to share some thoughts on the link between ethics and sustainable finance in general, by looking at sustainability from the angle of "conditions for the health of living beings in the broadest sense", with the example of the relationship between the One Health approach and sustainable finance. This connection requires and calls for a truly active commitment on the part of the financial world.

It represents a profound transformation in the way we think about financing and investment, and finance in general. To this end, ethics can truly become the cornerstone of sustainable finance, by being an integral part of all projects and investments.

Ecological accounting as the driving force behind an eco-compatible economy

Dorothee Browaays

Our current economic models are based on an unsustainable social contract and growth model. Their tools (notably GDP) are in fact totally blind to the destruction of the environment. At the heart of the system, accounting – if it becomes ecologically based – can provide information on the socio-environmental impacts of organizations, and take them into account to generate production practices that protect living environments.

Around the world, and particularly in France, numerous research and experimental projects are exploring the relevant metrics and accounting models for integrating natural capital into the measurement of organizational performance. They are paving the way for the emergence of new sustainable business models in an "economic regime" compatible with living systems, as called for by the European regulations of the Green Deal.

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