

November 2012

8th ESDN Workshop

“Financial Markets, Institutions and Policies in the Context of Sustainable Development – Dimensions, Issues and Actors of an Emerging Arena”

22-23 November 2012, Brussels, Belgium

Workshop Report

The logo for the European Sustainable Development Network (ESDN) is prominently displayed in the center of the page. It consists of the letters 'E', 'S', 'D', and 'N' in a bold, blue, sans-serif font. The letters are arranged in a way that they appear to be floating over a light blue map of Europe, which is the background for the central graphic. The map shows the outlines of the European continent, including the British Isles, Scandinavia, and the Mediterranean region.

European Sustainable Development Network

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The **European Sustainable Development Network (ESDN)** is an informal network of public administrators and other experts who deal with sustainable development strategies and policies. The network covers all 27 EU Member States, plus other European countries. The ESDN is active in promoting sustainable development and facilitating the exchange of good practices in Europe and gives advice to policy-makers at the European and national level.

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Introduction

The 8th ESDN Workshop, entitled “Financial Markets, Institutions and Policies in the Context of Sustainable Development - Dimensions, Issues and Actors of an Emerging Arena”, took place in Brussels on 22-23 November 2012. In total, 53 participants from 14 European countries and Japan attended the workshop. The workshop had the aim to scope the mechanisms and operational design of financial markets, explore the functional and dysfunctional aspects in a SD perspective and, on this basis, develop concrete fields of action for SD policy related to financing, financial markets and finance governance.

The outcomes of the workshop provide an orientation for SD policy-makers in the debate around the financial markets and future policy options in their administrations. In addition, the workshop brought together actors from different fields to discuss and learn from their respective experiences to develop suggestions how the financial markets could better serve SD objectives. The workshop focused on questions such as: What are the conceptual frames, the framework conditions, mechanisms and recent developments of financial markets? What exact impacts does the current financial market system have on SD policy and practice? How can financial market reforms and additional instruments and institutions be designed in order to enhance SD? How are sustainable investing practices affected by other events and upheavals in financial markets, such as the financial crisis or the current Euro crisis? To what extent do (or should) investors reflect on SD objectives in their investment decisions?

The workshop’s objectives were explored in the following 4 sessions:

- Session 1: Setting the stage: Different views on the international economic and financial markets and how they are connected to sustainable development**
- Session 2: European banking and business experiences**
- Session 3: European policy experiences**
- Session 4: Defining fields of action and governance implications**

Similar to previous ESDN workshops, this event dealt with the themes in different formats: keynote presentations highlighted general issues and key aspects of the workshop theme; panel discussions provided an overview of experiences and standpoints of different actors and institutions; parallel working groups discussed specific aspects of the workshop theme in-depth; summaries of the results of the working group discussions were used for immediate reactions and further discussions during the workshop; and interactive formats throughout the workshop allowed participants to reflect upon issues raised and to develop recommendations.

The full documentation of the 8th ESDN Conference 2012 can be found at the [ESDN homepage](#) and includes:

- Workshop Agenda;
- Workshop Discussion Paper;

- ESDN Case Study No.11 “Sustainable investment: options for a contribution to a more sustainable financial sector”;
- ESDN Case study No.12 “Barriers and opportunities for taking a long-term perspective in the financial market”;
- PowerPoint slides of all keynote and other presentations;
- Participant list;
- Photo documentation; and
- Video clips from the keynote presentations and panel discussions.

Welcome addresses

In his welcome address, **Michael Smyth** (*President of the Section for Economic and Monetary Union and Economic and Social Cohesion, European Economic and Social Committee*) welcomed the workshop participants on behalf of the EESC as workshop host and highlighted the importance of addressing the relationship of financial markets and sustainable development in the current situation in Europe.

Jörg Mayer-Ries (*BMU, Germany*) introduced the workshop theme by stressing the necessity for the SD community to engage with the financial sector for many reasons. Among others, he emphasised the need to bring SD perspectives into the financial sector and to ensure financing for SD. As with many sectors, SD issues dependent on the financial sector and finance is a highly influential field for SD. Therefore, he urged the SD community to build up pressure to make the financial sector more respondent to SD. He then described a few key points for discussion: (i) the role of education in SD of financial sector professionals and their ethics; (ii) the central role of transparency and responsibility (i.e. global responsibility, inter-generational, of action of individuals and institutions); (iii) the notion and perception of risk, and how to manage risk and perceive risks; and (iv) the need for a sustainability strategy in the financial sector.

André Martinuzzi (*ESDN Office Coordinator and Director of the Research Institute for Managing Sustainability, Austria*) in his presentation, “Financial markets and sustainable development”, reflected on the links and controversies among the financial sector, the real economy and sustainable development. As part of this reflection, he showed several examples of the size and power several players on the financial sector have. He then pointed out the main differences between the financial markets and SD. He also provided an overview of the main objectives of the workshop: i) to scope the mechanisms and operational design of financial markets; ii) to explore the functional and dysfunctional aspects from an SD perspective; iii) to develop concrete fields of action for SD policy related to financing, financial markets and finance governance; and, iv) to provide an orientation for SD policy-makers in the debate around the financial markets and future policy options.

Session 1 – Setting the stage: Different views on the international economic and financial markets and how they are connected to sustainable development

After the welcome addresses and the overview on the workshop topic in the introductory session, the **keynotes in Session 1** had the aim to provide a broad framing and few viewpoints over the different issues and concepts of the workshop. The PPT slides of the keynote presentations can be found in the [8th ESDN workshop section](#) of the ESDN homepage.

Paul Welfens (*Professor of European Economic Integration, University of Wuppertal/EIWW, Germany*), in his keynote, “Double global sustainability: International macro-economic perspectives and long-term environmental modernization”, touched upon several key issues such as: (a) Double Sustainability; (b) traditional and new sustainability Initiatives; (c) theories on savings, financial markets and sustainable growth in open economies; (d) global sustainability indicators; and (e) several policy conclusions. He then introduced some general remarks stressing the presence of a global emphasis on sustainability by international actors (i.e. UN, G20, EU) as well as by Europe 2020 and the policy agendas of EU Member States. However, he also noted that global growth of population and economic output are raising serious problems for sustainability. Therefore, he suggested focusing on environmental-friendly (green) innovations and investment projects which would require a long-term orientation of investors and fund managers. Moreover, he argued that the banking crisis of 2007-09 clearly showed how short-termism is part of the problem of the financial sector.

Richard Werner (*Director of Centre for Banking, Finance and Sustainable Development, University of Southampton, UK*) in his keynote, “Financial markets and SD: Clarification of concepts, major actors, current challenges and how the financial market is connected to SD”, firstly explained the main notions for understanding the financial sector and the role of banks. Very interestingly, he showed the special role banks have in the economy, which is empirically found to be related with money creation by banks through the creation of credit. In his words, banks “are not (just) financial intermediaries. They have a license to ‘print money’ by creating credit. (...) Banks do not lend money, they create it”. He also noted that “it is not a law of nature that commercial banks should be the institutions creating and allocating the money supply. It is a public privilege granted to banks, on the implicit understanding that they will not use it against the public interest. However, governments and regulators have failed to ask banks to create and allocate credit mainly for productive purposes and transactions that are part of GDP. Only productive credit creation is sustainable. Banks have responded by using the privilege to create the money supply for their own short-term (speculative) gains. This creates unsustainable asset bubbles and costly banking crises and subsequent recessions”. Therefore, he suggested a possible solution to increase the sustainability of the banking sector, essentially by disentangling financial intermediation from credit creation (money supply), by requiring banks to hold deposits in custody, making them true deposits.

Banks would then be equal to other 'mere' financial intermediaries and their systemic role would disappear.

Volker Abel (*Senior Manager, Department for Strategy & Finance in zeb/rolfes.schierenbeck.associates, Germany*) gave a presentation on "Banking governance, financial crisis and structural challenges – the micro-level perspective of sustainability" by touching upon three main points: Firstly, he described the current state of the banking industry and the lessons learned from the crisis, pointing out that many banks in search for new business models recognise sustainability as one of six megatrends to be considered. Secondly, he explained that, in search for generating value, many banks are reshaping their business models towards more sustainable business practices. Finally, he portrayed the road ahead in the banking sector and the future of sustainability in banking. He argued that, before the financial crisis, banking and sustainability seemed to be incompatible while, currently, a strong momentum towards sustainable banking is existing.

Akira Maeda (*Professor, University of Tokyo, Japan*) in his keynote, "Perspectives on Double Sustainability in Japan: Environmental Aspects and Long term Economic Dynamics", gave an Asian point of view to the participants by describing the situation in Japan. Mainly, he touched upon the debates of Japan's climate policy in the past years and in the present. He gave a retrospective view on these debates dividing them in four periods: 1) before the Kyoto Protocol (1997); 2) after the Kyoto Protocol (1997); 3) after the 2008 G8 Summit held in Hokkaido, Japan; and, 4) after the Great East Japan Earthquake of March 11, 2011 to present. He then presented what were, in his perspective, the current issues and debates going on in Japan. He argued that most Japanese advocates had been suggesting the "triple E" (energy security, the environment, economic growth/efficiency) as one of the most important concepts for Japan's national energy policy formulation. In this regards, he said that the nuke accident of March 11, 2011 triggered the restructuring and reformulation on the concept. In addition, the citizens' attention and focus have been moving, especially due to the earthquake and nuke accident. Finally, he concluded that, in Japan, risks and uncertainties were coming up to the centre of attention.

Following professor Maeda's keynote, a **plenary discussion** took place about international economic issues, financial markets and sustainable development. Following the discussion, the moderator asked each keynoter to formulate one "take-to-lunch-message" that the workshop participants could reflect upon over lunch:

- **Richard Werner** said that it is necessary to better regulate and control the financial sector. The financial sector should, ideally, serve the real economy and society.
- **Paul Welfens** proposed that the balance sheet of banks should include at least one page on double sustainability.
- **Akira Maeda** pointed out that the discussions so far showed that relationship between the economy and the environment is still contested and needs further debate.
- **Volker Abel** argued that it is necessary to take into account the developments of the last three years since the beginning of the financial and economic crisis. A lot has happened,

especially in banks, and sustainability issues are increasingly finding their way into the thinking and practice of banks.

Session 2 – European banking and business experiences

The **session 2** followed with 3 presentations by James Vacaro, Guido Giese and Ralf Frank that offered different perspectives and viewpoints. This was then followed by a Questions & Answers session.

James Vaccaro (*Director, Investment Management at Triodos Bank & Global Alliance for Banking on Values, UK*) with a presentation, entitled “What could sustainable banking contribute towards a sustainable Europe?”, confronted the audience with the experience of the Triodos Bank. Interestingly, he described a new movement in the banking sector that he called ‘Banking on Values’. He said that 10 million customers in 20 countries (worth \$40 billion Assets) were looking at banks with the following key aspects embedded in their culture: 1) triple bottom line approach at the heart of the business model; 2) grounded in communities, serving the real economy and enabling new business models to meet the needs of both; 3) long-term relationships with clients and a direct understanding of their economic activities and the risks involved; 4) long-term, self-sustaining, and resilient to outside disruptions; and, 5) transparent and inclusive governance. Furthermore, he offered his perception on the influence that sustainable banking could have for sustainable Europe. Firstly, he addressed the areas under the headline “Building the New Economy” and especially the influence of sustainable banking on renewable energy, sustainable agriculture, waste & recycling, social enterprise. Then, he focused on the chance of “Driving Behaviour Change” arguing about rethinking ‘What banks are for’ and about the role of ‘spending vs. saving’, of ‘impact investment’ and of the ‘behaviour behind money’. Finally, he touched upon a so-called ‘Better Risk Management’ that would need to be closer to sectors/locality, should understand systems, support mechanisms, and help create markets.

Guido Giese (*Head of Indexes, SAM Group*) in his keynote, “Indices, sustainability ratings and the Dow Jones Sustainability Index”, presented the perspective of the SAM Group that is working on Sustainability Investing using an integrated sustainability research approach that integrates ESG factors into the financial analysis of companies. SAM Group’s key idea is to research ESG factors that can impact the long-term business success of a company with the objective of offering standardized research approach covering over 3000 large and midcaps globally. He portrayed a broad variety of investment solutions including private equity, active funds and investable indexes covering all global regions. Then, he explained that index based investment products were available in the form of certificates, structured products and ETFs. Therefore, he focused on the Dow Jones Sustainability Indexes (DJSI), which promise a Integrated assessment of economic, environmental and social criteria with a strong focus on long-term shareholder value.

Ralf Frank (*Secretary General, Society of Investment Professionals (DFVA) in Germany*), in his keynote, "The German Sustainability Code: Transparency and benchmarking of a company's sustainability performance", touched upon a few topics all related to the experience made in Germany on the construction of a Sustainability Code. Very interesting appeared to be the goals that the German Sustainability Code is pursuing: firstly, bringing German companies to recognize the necessity to take a stance on sustainability (by committing to a code); secondly, promoting innovative power and quality of German companies in the area of sustainability; thirdly, creating an instrument that would facilitate access to company sustainability data for investment decision-making (incl. credit), which would not add to the proliferation of reporting frameworks for sustainability, but rather combine elements thereof in an intelligent manner as a lowest common denominator (entry point for SMEs). The code is based on the UN Global Compact, OECD Guidelines for multinational enterprises, and ISO 26.000.

In the **Q&A session**, the keynoters discussed with the participants on emerging issues. At the end of the session, the moderator asked the keynoters to highlight their main messages:

- **James Vaccaro** argued that SD measures (e.g. indices, impact assessments) play a valuable role to validate actions, but you also risk drowning in data. The driving goal should be an understanding how to change the systems towards more sustainability.
- **Guido Giese** also referred to the question what drives the change to SD? He pointed out that external pressure is crucial for companies to take action.
- **Ralf Frank** mentioned the importance of involving the mainstream market in order to move towards more sustainability, involving an institutional framework, training and education.

A **working group session** followed where participants had the chance to discuss lessons learnt from for SD policy and governance from the topics previously presented by the keynoters. In total, 15 topics were raised in the form of short messages on moderation cards:

1. SD-strategy for financial sector;
2. Saving/investment (financial markets support real economy);
3. Financial rating agencies should adopt 'sustainability principles' in their indexes;
4. Increase awareness for the concept of sustainability for financial market actors (info, education, university, research, ...);
5. Measurement/ratings beyond GDP → 'Genuine Savings' principle;
6. Institutional framework (control market failures: develop 'good' financial institutions);
7. Asset owner: "Walk the talk!";
8. Single-purpose SD/finance products (e.g. green funds);
9. Remove barriers for insurance companies to invest in sustainable projects/investments;
10. Better quality of regulation and enforcement of mechanisms;
11. State intervention to stimulate SD;
12. Reform managerial accountability to account for SD;
13. Link EU (regional) funding to the application of sustainability codes;
14. Enable "Finance 2.0" by enhancing disclosure, transparency, accountability; and

15. Political actors (ministries) should cross-fertilize on 'sustainability'.

Overall, five topics were the most discussed during the working group session. Firstly, a strong interest was shown towards the role of the rating agencies within the financial sector, but especially for their effects on the real economy. Secondly, high importance was given to the role of accountability, disclosure and transparency within the financial sector. In the same direction, the need for more regulation and state intervention was felt. A fourth important aspect that came out in the working groups was the necessity for a stronger focus on investment that supports sustainable projects as well as more investments in SD in general. Fifthly, a crucial role was recognized for raising awareness of sustainable development and sustainability themes towards and within the financial sector in order to help a better alignment and comprehension between the two arenas.

Session 3 – European policy experiences

The second day started with an introduction by Jörg Mayer-Ries (BMU, Germany) and André Martinuzzi (ESDN Office Coordinator, Austria) who reflected on the discussions taken place on day one. The following **Session 3** consisted of three **keynotes**, which presented three different cases and perspectives from the European Union: UK, Germany and Italy.

Chiara von Gunten (*Branch Director, Z/Yen Group Limited, UK & Programme Manager of the London Accord*) in her keynote, "UK: Financial markets, institutions and policies in the UK – a sustainability perspective", covered three main aspects: i) UK financial markets, institutions and policies; ii) Where finance meets sustainability; iii) What role for the regulator. On the first aspect, among others, she described the financial institutions in the UK which foresee the responsibility for financial stability divided between the Bank of England (BoE), Financial Services Authority (FSA) and the HM Treasury (HMT). Secondly, she portrayed the UK Sustainable Development Agenda. Finally, she talked about where finance meets sustainability through recent development in UK and, especially through four key aspects: 1) Leading centre for carbon markets; 2) Trading of CDM credits; 3) Trading of futures and options on EU ETS; 4) Private equity finance for renewable energy.

Dorothea Schäfer (*Research Director Financial Markets, German Institute for Economic Research*) in her keynote, "Germany: The German approach towards financial markets and its relation towards sustainable development", summarized the approach followed in Germany. She pointed out that a sustainable financial architecture is still to be achieved for a number of reasons. Firstly, there is a lack of central European Financial Market Authority. Secondly, the capital requirements appear to be insufficient because they are based upon risk weighted assets instead of complete balance sheet of the banks. Thirdly, there is a lack of a comprehensive financial transaction tax. Fourthly, a Europe-wide insolvency law for banks is still not in sight yet. However, she argued that a lot has been done in the last four years and there are also some achievements. She suggested that researchers and policy-makers still have much to do in the field of sustainable financial markets.

Stefania Rossi (*Professor of Macroeconomics, Department of Economics, University of Cagliari, Italy*) in her keynote, “Italy: From the financial crisis to the public debt crisis – some considerations on the Italian Case”, described the bailout policy and the opportunistic behaviour of banks and financial institutions with a special attention to the large banks that are called ‘Too Big To Fail’ (TBTF). She focused on and explained the history of the recent crises and how the crisis was transmitted from financial to real and public sector through a number of mechanisms. Finally, she concluded by describing the situation that affected Italy.

After these three presentations, an **interactive discussion** took place about the lessons learned from the presented cases for SD policy. One aspect that was highlighted was the option for creating a non-for-profit rating agency in Europe. The potential of a public rating agency would be to raise competition among rating agencies and would allow striving for an improvement of rating methodologies, e.g. by including SD criteria.

Session 4 – Defining fields of action and governance implications

The **fourth and final session** of the workshop was kicked-off by a panel discussion where four panellists presented brief reflections on the theme “What actions are important in the near future and what are the implications for SD governance?”.

Ariane de Dominicis (DG Environment, European Commission) identified four major barriers which stand in her view against a substantial shift of investments towards sustainable development: (1) risks associated with environmental investments; a possible solution would be to use public money as leverage (de-risking initiatives); (2) perceived complexity of investing into SD activities, e.g. energy efficiency; better training and education in business schools and banks as well as developing instruments to reduce complexity could potentially decrease the perception of complexity; (3) lack of transparency and information on resource efficiency and SD performance; here, comparable data is needed to steer investments and activities, plus non-financial reports and accounting for natural capital are necessary; and, 4) bias of the markets towards the short-term, whereas SD is essentially long-term; as current measures of performance a short-term, long-term engagement of stakeholders and investors are necessary.

The second speaker, **Joost van Iersel** (President of the Europe 2020 Steering Committee, European Economic and Social Committee) offered his perception on the business world. Very interestingly, he argued that a new attitude was emerging where top business leaders are committing themselves to focus more on giving sustainability a stronger place in companies. He also notices a shift toward more long-term approaches in companies where also suppliers and clients are often participating in this process. Finally, he highlighted that the cooperation with NGOs is becoming more usual and part-of-the-game for companies.

Thirdly, **Richard Burrett** (*President of the Europe 2020 Steering Committee, European Economic and Social Committee*) spent his intervention on a paper by UNEP FI in cooperation with the IISD. In this paper, he argued, six areas are highlighted in relation to the re-engineering of the financial system outlining the relevance of sustainable finance and investment thinking to these areas: (1) Dark tools and the shadow side – difference in size between financial markets and SD, taking into account issues of transparency; (2) Active ownership – how to motivate asset manager to actively manage their shareholders; (3) Listing for SD – listing requirements for stock exchanges; (4) Banking and long-term investments – lending of long-term capital; (5) Rating and role of rating agencies – they have become de-facto regulators of the financial market; (6) Insuring the future – stability and solvency, insurance companies and how they insure long-term aspects.

The fourth and final speaker, **Alessandro Vercelli** (Professor at the Department of Political Economy at University of Siena, Italy & partner in FESSUD project on financialisation, economy, society and sustainable development, funded by FP7) mainly touched upon the meaning of sustainable finance and the necessity of it to ensure the pursuing of sustainable development. Then, he explained the challenges posed by the process of financialisation of the last 30 years, especially caused by speculation.

After the keynoters a **plenary debate** took place. In the discussion, the investments in the green economy, in green energy and in SD had an important role. In this regards, the crucial importance of a clear and solid policy decision was highlighted as a prerequisite for businesses to invest in such areas. Political instability towards future policies into energy and climate change was seen as a major obstacle. The role of the European Union was seen fundamental to help build up a common agenda for sustainable finance and brining sustainability into financial markets. It was, therefore, proposed to establish an EU wide venture capital market investing in SD issues. An important point was then raised about the necessity of internalizing externalities and, therefore, to make sure that sustainability thinking is embedded into business-as-usual. Furthermore, the greening of national budgets was suggested as a crucial step. Accordingly, the importance was raised that the whole economy needs to be targeted toward a green, SD-based and resource-efficient economy.



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