

MAKING REAL FINANCIAL SUSTAINABILITY THROUGH FORMAL AND INFORMAL INDICATORS ASSESSMENT

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1. INTRODUCTION

- Achieving sustainable development at a global level has multidisciplinary implications since its scope encloses environmental, economic, social, and governance aspects.
- The financial system can decisively contribute to the achievement of a more sustainable world through sustainable finances that are already being promoted.
- But, it is a must to standardize the indicators to measure the accomplishment degree of the sustainability targets and the exchange of data collected in this scope.
- These indicators are essential to promote more sustainability in the more depressed scopes, because they will show the weaker points.

2. THE EVOLUTION OF THE CONCEPT OF “SUSTAINABILITY” AND THE EFFECTIVENESS OF THE REGULATIONS ON ITS DEFENSE

- “Our Common Future” report or 1987 Brundtland Report (United Nations (1987)). → Concept of sustainable development as the one that satisfies current needs without endangering the ability of future generations to meet their own needs.
- The lack of legally binding nature of the former international agreements have generated, for years, a situation of recurrent regulatory ineffectiveness at the international level, because the main rules were considered *soft law*.
- This feature is changing since the Paris Agreement of September 25, 2015, was signed, because it leads us to the “2030 Agenda” proposed by the United Nations General Assembly. It is a new global framework for sustainable development, that has been described as the first universal and legally binding agreement on this area.
- This agreement determines the goals of sustainability as a common target of international relevance. And developing it → the *Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development of United Nations* includes 169 targets, that are indicators of sustainability.

3. FORMAL INDICATORS OF SUSTAINABILITY.

Formal indicators → are those that can be identified as sustainability milestones and actions in favour of sustainability, being the result of the traditional sources of analysis such as binding international agreements, and legal or regulatory requirements.

Indicators based on material goals



Source: www.un.org

Indicators based on actions of the green finances scope

- **Direct sustainable actions**
→ To deal with direct risks (related to climate change)
 - Prudential requirements accomplishment
 - Transparency requirements accomplishment and financial culture promotion
- **Indirect sustainable actions**
→ To deal with transition risks (related to climate change)
 - Sustainable finance issuance (green finance and others)
 - Sustainable finance investment (green finance and others)

- Transparency and financial culture as sustainability indicators
- Universal taxonomy regulation + DEFINITION OF HARMFUL EFFECTS

4. INFORMAL INDICATORS OF SUSTAINABILITY.

Informal indicators → Are those that could be extracted from some international guidelines and other documents, as reports, that label different kinds of tools as sustainable products and mechanisms, and the indicators related to the data that make possible to rate compliance with the social responsibility of the administrations -in the public sphere-, and of corporate social responsibility -in the private scope-.

International reports indicators	International standardization	Corporate social responsibility / Public social responsibility
<ul style="list-style-type: none">• Blended finances• Credit and guarantees for development• Impact investments, as private equity debt issuance or fixed income securities• "Funds for company challenges" or "Enterprise Challenge Funds"• "Social and Development Impact Bonds"• "Crowdfunding" and "debt-for-nature swaps" (DNS)	<ul style="list-style-type: none">• ISO-14001, as an international standard for environmental quality management-• ISO-50001 that establishes the requirements of an Energy Management System, in order to carry out systematic and continuous improvements to the energy performance of both public and private organizations.• Many others in accordance to other targets related to the SDGs	<ul style="list-style-type: none">• Quality standards accomplishment• Existence and accomplishment of Social Responsibility Plan• Existence and issuance of periodical Report on social responsibility accomplishment• "Green nudge" or "sustainable nudge".

5. RESULTS

As result of the previous sections, we offer below an **initial proposal of a template** useful to assess the impact on sustainability of the activities carried out by public or private financial institutions.

It could be applicable to assess each financial entity periodically by crossing data about sustainable actions performed and the material indicators on SDGs determined by UN (these last ones showed in the left column) –see paper for more detail-, which are referred in some cases to the national situation of each country or territory in where the entity assessed has developed its actions by having there its registered main office. This template could be completed and improved for a better determination of the achievement of sustainability values through sustainable finance and on formal or informal indicators, including more future indicators.

Assessment on sustainable finances					
Sustainable finance actions					
Positive effects					Harmful effects
Direct actions on sustainability –Against direct risks-		Indirect actions on sustainability –Against transition risks-		Other actions	
Prudential requirements accomplishment	Transparency requirements accomplishment and financial culture promotion	Sustainable finance issuance (green finance and others)	Sustainable finance investment (green finance and others)	According with informal indicators	
Material indicators of sustainability					
<p>*In this column are included the indicators formerly quote in the paper, especially the <i>Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development of united Nations</i>, regarding the material indicators.</p> <p>See paper for more detail.</p>		<p>Through:</p> <ul style="list-style-type: none"> Blended finances Credit and guarantees for development, Impact Investments, private equity debt issuance or fixed securities Funds for company challenges" or "Enterprise Challenge Funds" Social and Development Impact Bonds" "Crowdfunding" and "debt-for-nature swaps" (DNS) 	<p>Through:</p> <ul style="list-style-type: none"> Blended finances Credit and guarantees for development, Impact Investments, private equity debt issuance or fixed securities Funds for company challenges" or "Enterprise Challenge Funds" Social and Development Impact Bonds" "Crowdfunding" and "debt-for-nature swaps" (DNS) 	<ul style="list-style-type: none"> Quality standards accomplishment Guidance and accomplishment of Social Responsibility Plan Evidence and issuance of periodical report on social responsibility accomplishment "Green nudge" or "sustainable nudge" 	

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5. RESULTS

	<i>Action with the purpose of...</i>		<i>Action with the purpose of...</i>			
	<input type="radio"/>	a) mitigation of climate change;	<input type="radio"/>	a) mitigation of climate change;		
	<input type="radio"/>	b) adaptation to climate change;	<input type="radio"/>	b) adaptation to climate change;		
	<input type="radio"/>	c) sustainable use and protection of water and marine resources;	<input type="radio"/>	c) sustainable use and protection of water and marine resources;		
	<input type="radio"/>	d) transition to a circular economy;	<input type="radio"/>	d) transition to a circular economy;		
	<input type="radio"/>	e) pollution prevention and control;	<input type="radio"/>	e) pollution prevention and control;		
	<input type="radio"/>	f) protection and recovery of biodiversity and ecosystems;	<input type="radio"/>	f) protection and recovery of biodiversity and ecosystems;		
	<input type="radio"/>	g) Other connected purposes	<input type="radio"/>	g) Other connected purposes		

Final Assessment	Sum:	Sum:	Sum:	Sum:	Sum:	Sum:
Impact quantification of the sustainability achieved						

TOTAL RESULT*:

*Include the difference between the favourable effects and the harmful effects, which must be positive to be considered sustainable finance actions

6. CONCLUSIONS

- The determination of the indicators to measure the degree of sustainability of financial instruments and other financial actions can be obtained by extracting formal indicators from the existing regulations, and informal indicators from other sources that are voluntarily applied.
- All of them are equally valuable for making a template that collects indicators to assess the degree of sustainability of financial institutions, as indicated. Indeed, the informal indicators analyzed are applicable to all the targets of the SDGs while the formal ones are mainly focused on the environmental targets. So, it would be desirable to unfold more formal indicators regarding all the SDGs.
- The material indicators provided by the 2030 Agenda should be crossed with those indicators obtained by actions on sustainable finances, which will yield a result after quantifying the number of actions implemented and their positive or harmful impact on sustainability. The result must always be positive for a financial entity or action to be considered sustainable.
- This first approach needs to be supported by a universal regulation or guidelines on taxonomy, that provides clarity on the concepts to be evaluated, following the path initiated by the European Union. With this and with the development of future standards and guidelines on sustainable finance, this proposal for an assessment template would evolve and be improved, becoming a tool for making real financial sustainability in a forthcoming future.

THANK YOU VERY MUCH

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