**Training Fiche**

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| **Title** | Module 10: Ethical finance for a just society | |
| **Keywords** | sustainable finance; greenwashing; ESG; | |
| **Provided by** | Fuori dal Sommerso Soc. Coop. | |
| **Language** | English | |
| **Objectives** | - Understand the link between the management of our savings and investments and its impact on the environment and the society  - Understand the mechanism of capital allocation in the financial system  - Know the opportunities of sustainable finance, but also the limits of regulation  - Know some sustainable and responsible investment products | |
| **Learning outcomes** | - Be more aware of the impact on society and the environment of our savings and of how we use them  - Be stimulated to direct our savings towards responsible and sustainable banks and investment products  - Know which parameters and documents to look for to verify the sustainability of banks and financial products  - Being able to recognize practices of greenwashing  - Acquire knowledge of sustainable and responsible investment funds and other "social" tools of investment | |
| **Training Area** | Financial Literacy Alphabet |  |
| Risk and dangers |  |
| Finance for Good | X |

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| **Content index** | **MODULE 10: ETHICAL FINANCE FOR A JUST SOCIETY**  **Unità 1:** The management of savings and its impact on society and environment  **Unit 2:** Sustainable finance and ESG metrics  **Unit 3**: Is sustainable finance also ethical?  **Unit 4:**  Ethical and sustainable investment tools | |
| **Content development** | | **MODULE 10: ETHICAL FINANCE FOR A JUST SOCIETY**  **Unit 1: The management of savings and its impact on society and the environment**  We might think that the money we deposit in the bank remains there guarded and still. Instead, deposited savings circulate and finance banks' activities, such as their investments in companies and other sectors. This is even more true when we decide to subscribe financial investment products offered by the bank.  In fact, banks and other financial intermediaries transfer money from subjects who have accumulated savings (for example households) to subjects in financial deficit, who need to invest or spend more than their available economic resources (such as companies or public administrations).  In deciding how to invest this capital, savers and financial intermediaries therefore have a crucial role in directing this capital towards subjects and activities that generate a positive impact on the society and the environment in the medium and long term.  Savers can therefore choose to invest in companies that generate, in addition to an economic return, a positive environmental or social impact, for example in companies attentive to the responsible use of natural resources and the effects on ecosystems, which guarantee adequate conditions of safety, health, justice, equality and inclusion conditions among workers etc ...  ***Key takeaway***  *Thus we can say with certainty that the management of savings has concrete consequences on the reality that surrounds us which could be both positive and negative depending on the type of investment we make.*  **Unit 2: Sustainable finance and ESG metrics**  The increasingly severe consequences of the ongoing climate and environmental crisis are slowly increasing attention to the sustainability of all human activities. Even in the world of finance there is a greater sensitivity and attention to "sustainable" investments for their potential to change our productive and economical system for the better.  ***"Sustainable finance"*** refers to finance that takes environmental factors into account in investment decision-making, directing capital towards longer-term sustainable activities and projects. Finance is defined as sustainable based on the **ESG parameters**, i.e. according to environmental (Environment), social (social) and corporate governance (Governance) factors.    **ESGs** are assessed with scores (*ESG ratings*) that express a summary evaluation on the level of environmental, social and corporate governance sustainability of issuers (companies, states, supranational organizations), securities and/or collective investment instruments.  ESG scores are assigned by specialized agencies that compile them after having carried out an extensive analysis based on non-financial information published by companies (*NFD non-financial statement*) and obtained from other sources (questionnaires, databases, news).  For "financial products targeting sustainable investments", traders must disclose how they achieve sustainable investment objectives. This information must be made available on the website, in the **pre-contractual information** and in the **periodic reporting**, as set out by the SFDR (Sustainable Finance Disclosure Regulation) of the EU.  However, there is a lack of internationally shared standards for sustainability assessment. As a result, missing a regulation that establishes uniform criteria on the data and methodologies used for the construction of ESG ratings, different concepts and measures are now used to define an economic activity as "sustainable".  The complexity and lack of transparency of the methodologies used to calculate ESG scores and the different weights attributed to ESG factors by different agencies limits the reliability and comparability of ESG scores, leaving the door open to greenwashing practices.  ***Greenwashing*** is a communication or marketing strategy of companies, institutions or organizations that present as eco-sustainable activities and products that in fact are not. With greenwashing, companies deceptively try to increase their sales by exploiting the growing sensitivity of consumers on environmental sustainability.  In the most frequent cases of greenwashing, the communication has the following characteristics:   * there is no accurate information or data to support the statement; * the information and data are declared as certified while they are not recognized by authoritative bodies; * single characteristics of what is communicated are emphasized; * the information is so general as to create confusion among consumers; * false or counterfeit labels may be used; * Untrue environmental claims are reported.   ***Key takeaway***  *So if we decide to buy a product or make an investment because of the sustainability characteristics that are claimed, we must also carefully inform ourselves through sources other than those who propose the product!*  **Unit 3: Is "sustainable" finance also ethical?**  In sustainable finance, the maximization of profit and the value of shares and dividends remain predominant, trying not to harm the environment too much. The approach of ***ethical finance*** is antithetical: the realization of economic profits is pursued, but it is functional to the objective of maximizing the benefits for people, communities and the planet.  EU Regulation [2019/2088](https://eur-lex.europa.eu/legal-content/it/TXT/?uri=CELEX:32019R2088) (SFDR – Sustainable Finance Disclosure Regulation) for sustainable finance does not prevent so-called sustainable financial intermediaries from continuing to make unscrupulous use of speculative instruments and tax havens; This could not be the case if, hypothetically, everyone operated according to ethical finance criteria.  In the EU approach, sustainability is defined almost exclusively by looking at the environmental component, in particular the reduction of CO2 emissions. For ethical finance, on the other hand, entire economic sectors must necessarily be excluded from investments (weapons, fossil fuels, tobacco, pornography, etc.). In the approach of ethical finance, the environmental, social and governance aspects have the same importance.  The risks of a fragmentary approach are mainly borne by the bank's customers, the environment and society. In fact, customers risk being misled thinking of making fully green and fair investments, the environment derives a limited benefit from the investment and society sees its rights to health and a just future threatened.  Despite this, the fragmented approach of sustainable finance persists because it benefits economic operators.  ***Key Takeaway***  *Therefore we can say that ethical finance is certainly also sustainable, but the so called “sustainable finance”, may not be ethical.*  **Unit 4: Ethical and sustainable investment tools**   * ***Sustainable and Responsible Investment Funds (SRI*):** they are investment funds that combine the search for performance with socially responsible issues. It is a type of financial instrument that operates through the raising of capital from multiple savers and invests in different assets such as shares, bonds, raw materials and other financial instruments. When selecting investments, these funds meet the ESG (Environmental, Social and Governance) criteria. The environment, social and human rights and transparency of governance characterize the investment choices of the fund. * ***Social Lending:*** these are personal loans provided by individuals to other individuals or businesses through specific internet platforms and therefore without going through traditional channels such as banks or other financial companies.   It literally means "social loan" and, as the term suggests, translates into a form of financing / investment carried out through specialized and authorized web portals, which bring together supply and demand. In practice, it connects those who need to apply for a loan or financing for a project with high yield potential and those who have a certain liquidity to invest. In this way, even a small saver has the opportunity to ensure a return in a direct, autonomous and even innovative way.  What are the advantages?  For lenders, the main advantage is ease of use and good expected returns, because the selected projects, have already been classified by the platforms themselves, which have received a sort of sticker, or a rating.  For those who receive the loan / financing the advantage is the speed of management. Since these operations are concluded digitally, everything happens quickly, with standard and transparent steps. Not only that: generally you also get lower interest rates than banks.  The risks are those of any investment: it is not said that the expected returns are centered, but a careful choice of the amount to be invested and the project to be financed, minimizes this risk, as indeed also happens through traditional channels. |
| **Glossary (5 glossary terms)** | | **- Non-financial Disclosure (NFD):** The NFD is a document in which social and environmental aspects are reported, with a focus on corporate sustainability policies, personnel management methods and commitment to the fight against corruption and respect for human rights. Its importance is crucial not only in terms of transparency, but also in terms of brand reputation, with effects on investors' choices. The non-financial reporting obligation concerns public-interest entities, such as banks or insurance companies, and listed companies.  **- ESG**: stands for Environmental, Social and Governance and refers to the three key factors for measuring the sustainability and ethical impact of an investment.  **- Greenwashing:** it is a deceptive communication or marketing practice pursued by companies, institutions and bodies that propose their activities as eco-sustainable, emphasizing the positive effects of some initiatives and at the same time trying to hide the negative environmental impact of other initiatives or of the company as a whole.  - **Socially responsible investment** **(SRI):** it is a type of investment considered socially responsible due to the nature of the business that a company conducts. Socially responsible investments can be directed towards individual companies or mutual funds that have a positive social impact.  - **Social Lending (also peer-to-peer lending):** it is a form of refundable loan between private individuals in which the intermediation between supply and demand takes place through specialized online platforms. The loan is generally linked to the start of a business project. |
| **Self-evaluation (multiple choice queries and answers)** | | 1. The responsibility to invest in sustainable and socially responsible businesses and activities lies on...  (a) on financial intermediaries selecting the stocks in which to invest  (b) on savers who subscribe the investment products  **c) on both**  2. The non-financial disclosure (NFD) shall be:  (a) an economic reporting document that all financial operators are obliged to produce and publish  **(b) a document reporting on environmental and social results** **and policies to be drawn up and published by certain undertakings**  (c) a specialized assessment document of banks' environmental and social policies  3. Greenwashing is:  a) the propensity of companies to propose more sustainable products  **b) a marketing strategy aimed at giving an image of sustainability to products and activities to hide the negative impact of other products or of the company as a whole**  (c) a sustainable investment product  4. ESGs :  **a)**  **are parameters that are used to assess the sustainability characteristics of the activities of companies and financial operators**  b) are parameters that are used to define sustainable finance and consider only the environmental aspects of investments and economic activities  c) are parameters that certify in a certain and unequivocal way the sustainability of an investment  5. Social lending:  a) is a type of investment between private individuals that is riskier than traditional investments made through financial intermediaries.  **b) is a form of loan between private individuals that takes place online through some specialized and authorized platforms**  c) it is a form of loan between private individuals which, having a social nature, does not provide any return for those who lend the capital. |
| **Bibliography** | | <https://www.eticasgr.com/storie/news-eventi/finanza-etica-sostenibile>  <https://www.bancaetica.it/finanza-etica-molto-piu-che-sostenibile/>  <https://www.thewisemagazine.it/2021/10/23/finanza-etica-sostenibile-eco-friendly/>  <https://economiapertutti.bancaditalia.it/informazioni-di-base/finanza-sostenibile/?dotcache=refresh>  <https://www.agendadigitale.eu/smart-city/finanza-sostenibile-esg-e-greenwashing-la-lunga-strada-verso-lo-sviluppo-sostenibile/>  <https://www.kairospartners.com/rating-esg-pro-e-contro-degli-indicatori-di-sostenibilita/>  <https://investiresponsabilmente.it/cose/>  <https://www.pmi.it/finanza/investimenti-pmi/379818/social-lending.html>  https://esgnews.it/focus/analisi-e-approfondimenti/greenwashing-definizione-ed-esempi/ |
| **Resources (videos, reference link)** | | * Sustainable and Responsible Investment: what it is and why it is convenient   <https://www.youtube.com/watch?v=CRk1gEfEHCU>   * Regulation EU 2019/2088 on sustainability reporting in the financial services sector   https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32019R2088 |