



Webinar: Transforming finance for biodiversity and climate action

Deliverable D5.6

26 April 2024

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Pensoft Publishers

TRANSPATH

Transformative pathways for synergising just biodiversity and climate actions



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Preface

The deliverable D5.6 described in the grant agreement states, "Report from the Policy Workshop documenting key discussions with the Policy Board comprising high-level policy officials." Pensoft is responsible for organizing this deliverable. After discussions with the project team and given the approval of the project officer, we decided to instead of the planned in-person policy workshop, it would be conducted as an online webinar.

At this stage of the project, following the annual general meeting, the consortium and coordination team concluded that hosting the inaugural event of this policy workshop series as a webinar would be most advantageous. This format allows for a broader exploration of topics to scan the horizon and orient subsequent workshops more effectively in a focused manner, thereby achieving optimal results. The broader participation enabled by the webinar, along with the questions posed and subsequent report, will better target the interests of stakeholders. The webinar was organised in close collaboration with the EU Business & Biodiversity Platform, to ensure access to a broad audience and strongly aligned to the European Commission's Flagship initiative for biodiversity.

Summary

The webinar, organised by Transpath Project, funded by Horizon Europe and co-hosted by the EU Business & Biodiversity Platform, seeks to strengthen existing efforts in transforming finance and sustain societal transformations in the long term, marking the beginning of this research project. The webinar covered:

- 1) Transformative change in the financial sector, requires a focus on systemic reorganization across technological, economic, and social dimensions. Three paradigmatic shifts are emphasized. Moving from viewing the economy as separate from nature to prioritizing stakeholder interests. This approach aims to target leverage points to address underlying beliefs and values, thereby promoting sustainability efforts within finance.
- 2) EU policy actions in sustainable finance aim to steer financing towards sustainability and shape market perceptions. Engagement platforms like the Industrial Ecosystem Initiative highlight the importance of proactive involvement from financial institutions and companies.
- 3) Emphasis on defining positive impacts and fostering innovation in financing. Biodiversity protection is gaining recognition, leading to the emergence of new asset classes like biodiversity credits, supported by regulations ensuring fair compensation.

The panelists and participants engaged in discussions emphasizing the proactive engagement from financial institutions and companies, paradigmatic shifts towards sustainability, and the importance of valuing biodiversity protection in economic decisions.

List of abbreviations

B&B	Business and Biodiversity
DG	Directorate-General
ESG	Environmental, Social and Governance
EU	European Union
NGO	Non-governmental organisations
TC	Transformative change

1 Webinar structure

In this section, the first part will present the goal and structure of the webinar and an overview of the interventions. The second part will introduce the speakers and their expertise, highlighting how their contributions contribute to the success of the webinar. The third part will analyse the participants of the webinar and their professional affiliations, which will help guide the outcomes related to the chosen topic.

1.1 Goal of the webinar

The financial sector plays a central role in shaping biodiverse, climate-proofed and equitable futures. Financial institutions are already stepping up efforts to fund conservation, restoration and sustainable resource use. Moreover, attempts are being made to identify the key nature-related risks in corporate and investment portfolios, to ensure that financial sectors are less vulnerable to nature degradation. The webinar will discuss how can these financial sector efforts be strengthened. What enabling EU policy environment exists for transforming finance for biodiversity and climate action? What is the role of EU and national financial regulators and standard-setting organisations in adopting nature-related disclosure frameworks that incentivize business and finance to report and act on evolving nature-related risks? And what else is needed to amplify and sustain this change in the long term?

This webinar brought academics, experts, and finance practitioners together to discuss potential strategies for transforming finance, and jointly explore what is needed to amplify and sustain the change. The webinar is part of an ongoing effort by the European Commission's Horizon Europe programme to support the 'Enabling Transformative Change' pillar of the EU Biodiversity Strategy for 2030.

1.2 Speakers

Speaker presentation cards can be found in Annex I. The speakers at this webinar were:

Anne-Marie Bor, EU B&B Platform, Next Green

Francisco Alpizar, Professor and Chair of the Environmental Economics and Natural Resource Group (ENR), Wageningen University and Research.

Kevin Flowers, Deputy Head of Unit Sustainable Finance, DG Environment

Hadrien Gaudin-Hamama, Impact & ESG Specialist, Mirova

1.3 Participants

Total participants: 81

To provide an overview of the participants, two graphs were created: one based on the professional affiliations of participants, and another based on the country where the organisation for which the participant's work is based.

The goal of the graph in Fig. 1 is to provide an overview of the sectors in which participants are interested in the topic of discussion work. This information is valuable for stakeholder mapping. The main categories include Research & Academia (22.2%), Environmental Services (13.6%), and Consultancy (11.1%). Participants also represented sectors such as Banking, European Commission, NGOs, Government Administration, Investment Management, Private Research Services, Financial Services, and others.

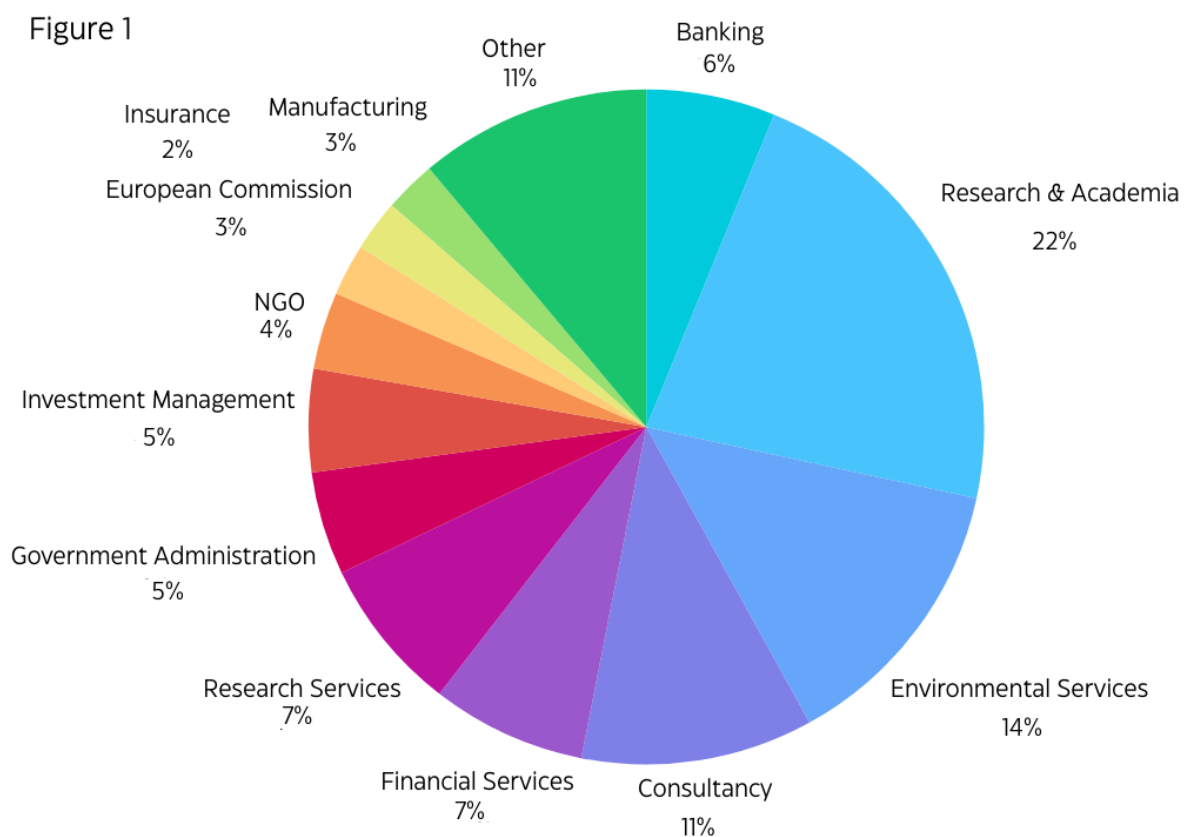
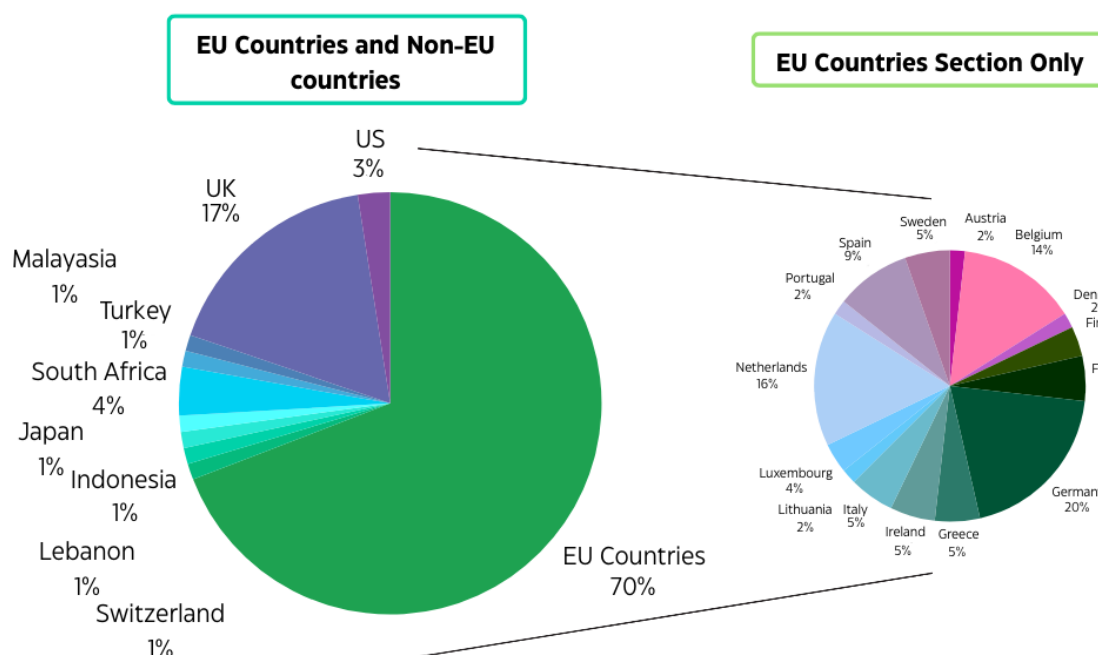


Fig. 2 summarizes the countries to which the participants' organizations are affiliated. This provides an overview of where these stakeholders are based, with the majority from the UK, Germany, and the Netherlands.

Figure 2



The majority of participants are affiliated with organizations based in EU countries (56 participants), followed by the UK (14 participants), South Africa (3 participants), US (2 participants), and one participant each from Indonesia, Japan, Lebanon, Malaysia, Switzerland, and Turkey.

2 Webinar content

This part of the report details the specific topics engaged during the webinar. In the first part, there is a summary of the presentations given by the panelists. In the second part, there is a discussion, and finally, there is interaction with the participants in the form of Q&A (questions and answers) and the results of the two polls conducted.

2.1 Presentations

2.1.1. Dr. Jeanne Nel, Scientific Coordinator of Transpath project

Jeanne Nel introduced the Transformative Pathways Project, funded by Horizon Europe, which aimed to accelerate nature-positive and climate-proofed societies, focusing on transforming production and consumption at the organizational level. Financial institutions play a key role in this transformation but are not moving fast enough to avert global crises. The webinar sought to address 1) how to strengthen existing efforts in transforming finance and 2) what is needed to accelerate and sustain societal transformations in the long term. Participants could ask questions through the Q&A button, and voting helped prioritize which questions got answered due to time constraints. The webinar marked the beginning of this research and innovation project, with ideas expected to evolve over time.

2.1.2 Anne-Marie Bor, EU Business & Biodiversity Platform and Next Green

Anne-Marie Bor lead the Finance workstream of the EU Business & Biodiversity Platform, an initiative by the European Commission since 2009. This platform, secretariat includes organizations like Next Green, ICF, and Arcadis, which focuses on integrating biodiversity concerns into business practices. Bor also co-founded the Finance for Biodiversity Foundation, which is closely linked to the EU B&B Platform. Collaboration with Transpath aligns with their goal of transformative pathways for the finance sector. The Finance workstream, along with Methods and Mainstreaming, engages in various activities, including impact assessment and organizing events like the European Business and Nature Summit. The finance and biodiversity community emphasizes peer-to-peer learning, involving around 40 banks, investors, and insurers committed to biodiversity. Topics such as impact assessment and transforming the economy within the finance sector are key in their discussions. Mirova, a member since 2016, is among the speakers participating in the webinar.

2.1.3 Francisco Alpízar, Professor and Chair of the Environmental Economics and Natural Resource Group (ENR), Wageningen University and Research.

See the presentation slides in Annex III. Francisco Alpízar discussed transformative change (TC) in the financial sector, a study in collaboration with Paul Dingkuhn and Jeanne Nel. He began by defining what transformative change entails, and why the financial sector plays a central role. He then presented three paradigmatic shifts required for transforming the financial sector:

1. Moving from viewing the economy as separate from nature to seeing it as embedded within nature, emphasizing double materiality and financial sector stability.
2. Transitioning from market fixing to market shaping, wherein the financial sector leads change within a market shaped to account for nature, with the state steering the economy towards environmental, social, and human well-being goals.
3. Shifting from shareholder primacy to stakeholder primacy, where the financial sector generates value for all stakeholders, not just shareholders.

Prof Alpízar concluded by illustrating various leverage points, from developing metrics to identify nature-related risks to broadening the fiduciary duties of managers to focus on stakeholders rather than solely shareholders.

2.1.4 Kevin Flowers, Deputy Head of Unit, Green Finance & Investments, DG Environment, European Commission.

See presentation slides in Annex III: Kevin Flowers provided an overview of EU policy actions in sustainable finance and reflected on whether these actions are predominantly aimed at fixing or shaping the market paradigm. He began by highlighting the significance of understanding the nature of economic components, such as GDP, emphasizing that values and beliefs underpin societal purchasing decisions, that in turn influence the quality of economic products and services.

Flowers pointed out recent positive news regarding the effectiveness of conservation projects in reversing biodiversity loss but reminded the conclusion that they need to be of much higher magnitude. He outlined the strategic rationale behind the EU's sustainable finance policies, aiming to transition financing towards sustainability and address gaps in investment needs. While transparency and disclosure regulations have nudging effects on the market, there's a need to focus more on actual transition financing.

He gave an example of the 'nudging effect' of the EU Green Taxonomy by introducing criteria for economic activities. Aimed as a direction for actual economy companies to move towards operating in a more sustainable space.

He suggested that the financial sector's engagement with companies in key sectors, rather than solely focusing on capital expenditure, can lead to significant shifts towards companies with a more positive footprint on nature. Mr Flowers acknowledged the complexity of sustainable finance measures, noting that while they may seem aimed at fixing the market, they often include elements that shape market perceptions and values.

Looking ahead to the 2-4 years horizon, Flowers anticipated a greater focus on coherence and usability of existing instruments, along with continued efforts in the implementation and mainstreaming of sustainable finance. He emphasized the importance of sustainable sectoral transition pathways in shaping the market. He suggested embedding sustainability considerations in initiatives such as the Industrial Ecosystem Initiative to ensure the market's alignment with sustainability goals.

5. Hadrien Gaudin-Hamama, Impact ESG specialist at Mirova

See presentation slides in Annex III: Hadrien Gaudin-Hamama discussed transformative finance within the context of funding flows for managing and restoring nature and biodiversity using the agriculture sector as an example. As co-chair of a working group within the Finance for Biodiversity Pledge, he emphasized the importance of defining positive impact and financing innovation to generate a positive impact and incentivize change. Gaudin-Hamama stressed the importance of improving biodiversity above baseline levels and embedding financial actions into the mitigation hierarchy while avoiding detrimental impacts on other sustainability goals.

He outlined three pillars: developing data methodologies, financing natural-based solutions, and engaging with the global community for reporting standards. Gaudin-Hamama illustrated the application of the mitigation hierarchy in financing agriculture, such as through equity investments in precision farming and bonds for nature restoration. He also highlighted the importance of innovation financing in private equity, emphasizing the need for regulations with clear indicators, such as the EU Nature Restoration Law and the EU Green Taxonomy. Gaudin-Hamama discussed barriers to innovation in Europe and suggested leveraging initiatives like precision agriculture policy to improve soil testing and facilitate the generation of biodiversity credits. In this regard, Gaudin-Hamama underlined incentives for various actors, such as governments meeting targets for nature restoration and corporations aligning with supply chain targets. He concluded by emphasizing the financial sector's potential to positively impact nature by deploying the mitigation hierarchy and the definition of positive impact.

2.2 Discussion

The discussion initially revolved around the engagement of the financial sector with key sectors and companies to drive transformative change towards sustainability, particularly in the context of nature and biodiversity. Kevin Flowers highlighted two approaches for companies to actively engage in these transformations. Firstly, through tools like the Sustainable Finance Disclosure Regulation and corporate sustainability reporting, financial institutions can identify sectors with significant footprints and risks related to nature and biodiversity. They can then initiate conversations with companies in these sectors to assess their transition plans and commitments towards nature-positive practices. He emphasized the importance of credible action and investment from companies to shift towards nature-neutral or nature-positive operations. Secondly, he mentioned the importance of stakeholder

engagement platforms where voices advocating for sustainable practices can be heard. Platforms like the Industrial Ecosystem Initiative provide opportunities for forward-looking voices to contribute to the vision of a competitive, sustainable, and resilient business sector. Overall, the discussion underscored the need for proactive engagement from both financial institutions and companies to drive meaningful change towards sustainability.

The discussion moved to the topic of paradigm shifts and their global implications, with a question directed to Francisco Alpizar about the differences between the global North and South in dealing with these shifts. Prof. Alpizar acknowledged that while the paradigm shift towards sustainability should ideally be global, there are varying levels of progress and understanding across regions. He noted that in regions like Latin America, Asia, and Africa, financial policies for transformation were still lagging but will eventually change due to the systemic nature of the financial sector and increasing interconnectedness. He attributed the leadership of the EU financial sector in sustainability to centralized efforts in creating frameworks like Green Taxonomy and regulations to integrate sustainability into business operations. Overall, he emphasized the importance of recognizing the differing speeds of paradigm shifts across regions while striving for global sustainability efforts.

Finally, the discussion moved to the challenge of reconciling short-term financial goals with long-term sustainability perspectives, particularly concerning financing flows for the protection and restoration of biodiversity. The question directed to Hadrien Gaudin-Hamama emphasized the difficulty of generating income directly from nature conservation efforts. Gaudin-Hamama responded by highlighting a shift in the perception of biodiversity protection, noting that it is now recognized as an essential component of financial stability. He emphasized the emergence of sustainable business models, such as circular economy practices and sustainable agriculture, which both reduce pressure on nature and offer profitable opportunities. Gaudin-Hamama also mentioned the transition and physical risks faced by companies that do not engage in biodiversity protection and restoration, citing examples like legal proceedings against PFAS producers and changing consumer preferences favouring plant-based diets. He underscored the importance of valuing the protection of nature through new asset classes like biodiversity credits, highlighting the need for regulations to ensure fair compensation for those engaging in positive practices and managing associated risks.

The Moderator acknowledged the significance of actions taken to reduce harmful substances like PFAS and pesticides in the EU, echoing Flower's earlier point about the need for voices advocating for change to be more prominent. She emphasized the importance of countering the strong lobbying efforts, particularly prevalent in the EU, by amplifying the voices of those driving positive change. Furthermore, she mentioned that many in the EU policy environment are urging for greater assertiveness in advocating for nature-positive change.

2.3 Interaction

2.3.1 Q&A section

This subsection gives an overview of the questions asked by participants during the webinar.

The top-rated questions, as voted by the participants, were posed by the Moderator to the speakers. Their responses are summarised in the previous section (Discussion)

1. How do we move from risk assessment to responding to risks? Transition from data-driven assessment to political intervention with regulatory frameworks and policies.
2. Are these paradigm shifts global, or do they differ in the Global South? Paradigm shifts must align with community values and cultural dimensions, recognizing diverse perspectives.

3. How much time is needed to reshape the global market and finance system? Urgent actions within 10 years to innovate for biodiversity-positive practices and remove negative impacts.
4. Can shaping markets based on underutilized or threatened species be an effective conservation strategy? Commercial exploitation may not benefit species unless niche markets are carefully regulated.
5. How can the financial sector contribute to meeting the GBF 30 x 30 goal? Broader engagement and integration across the Global Biodiversity Framework (GBF) agenda is necessary.
6. How can companies actively engage with the finance sector in transformations? Recommendations included assessing the impact on nature, aligning activities with planetary limits, and advocating for change.
7. How can financial flows for biodiversity protection be created, considering low financial incentives? Strategies discussed could involve government support, consumer demand for biodiversity-friendly goods, or a combination of approaches.
8. What will DG Environment's role in pricing signals involve, and what are the challenges?
9. What tools will the DG Environment support for transforming finance over the next year?
10. What role do researchers play in driving transformation?

Questions that remained and will be answered by email:

11. What role do you see here for researchers? What are the key knowledge gaps? To understand how financial flows and trade link across different places, scales and people, and how they can enable nature-positive, climate-proofed and equitable futures in different contexts. There are many ways to research this. The three paradigmatic shifts and their associated interventions provide clues in this regard.
12. What tools will the DG Environment support over the next year for transforming finance? Please see slide 3 of Kevin Flowers' presentation in Annex III
13. Did NCA in Kevin's slide refer to Natural Capital Accounting? Yes

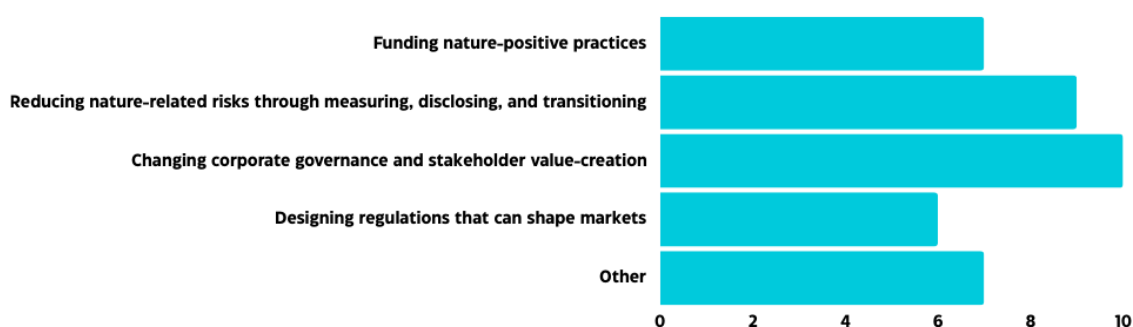
2.3.2 Poll 1 (question)

This subsection provides an overview of the interactive poll conducted during this session. Participants were asked, *"Within your scope of work, what are you doing today to transform the financial sector towards nature-positive futures?"* They were provided with several answer options, and here are the results from the poll:

- Funding nature-positive practices: 23%
- Reducing nature-related risks through measuring, disclosing, and transitioning: 30%
- Changing corporate governance and stakeholder value-creation: 33%
- Designing regulations that can shape markets: 20%
- Other (uncategorized responses): 23%

Graph of responses to the first poll:

Figure 3



3 Conclusions and next steps

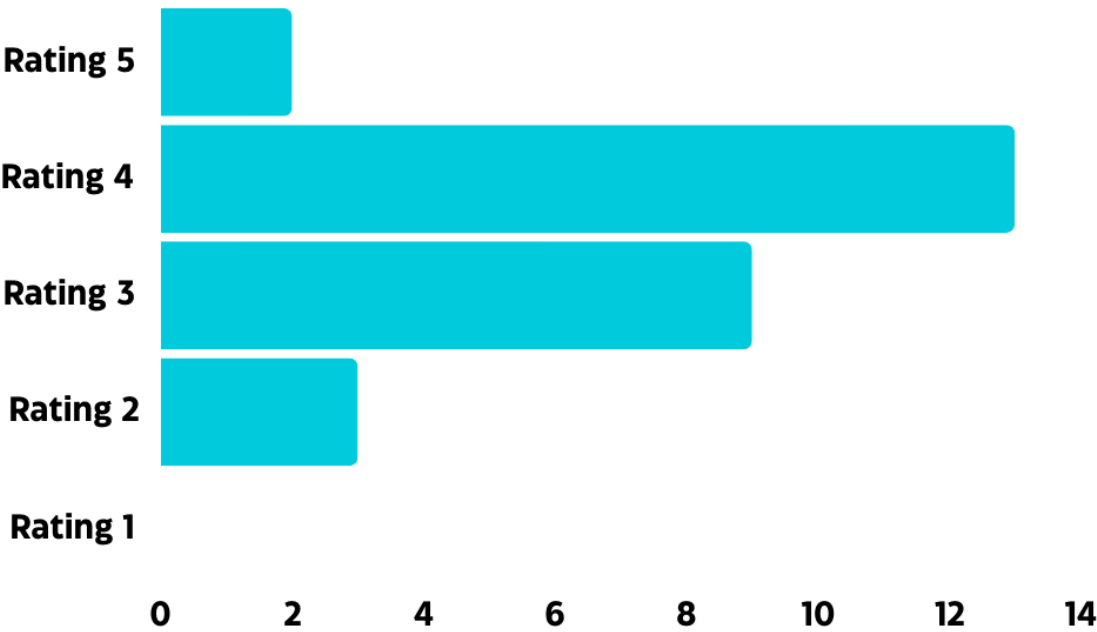
The host, Jeanne Nel, expressed gratitude to both the participants and speakers for their engagement in the webinar, highlighting its significance as the first step in a longer engagement process spanning three years. She invited participants to express interest in one-on-one interviews with their team and provide input into ongoing research. She invited the participants to fill in a webinar evaluation poll as they left. She concluded by thanking everyone for joining.

3.1.1 Feedback poll







This subsection presents the outcomes of the feedback poll, which asked participants the following question: 'To what extent did you learn new insights or perspectives on transforming finance for nature?' Participants used a rating scale from 1 to 5. The results of the voting are as follows:

Graph of responses to the second poll:

Figure 4



Annex I – Panellists' presentation cards and announcement

<p>Transformative Pathways</p> <p>European Business & Biodiversity Platform</p> <p>Webinar: Transforming finance for biodiversity and climate action</p>  <p>Meet the panelists:</p> <p>Jeanne Nel Programme Lead: Biodiverse Environment Wageningen University & Research</p> <p>Funded by the European Union</p>	<p>Transformative Pathways</p> <p>European Business & Biodiversity Platform</p> <p>Webinar: Transforming finance for biodiversity and climate action</p>  <p>Meet the panelists:</p> <p>Anne-Marie Bor Director of NextGreen; Lead Finance Workstream under the EU Business & Biodiversity Platform; Co-Founding Board member of Finance for Biodiversity Foundation</p> <p>Funded by the European Union</p>
<p>Transformative Pathways</p> <p>European Business & Biodiversity Platform</p> <p>Webinar: Transforming finance for biodiversity and climate action</p>  <p>Meet the panelists:</p> <p>Kevin Flowers Deputy Head of Unit, Green Finance & Investments, DG Environment, European Commission</p> <p>Funded by the European Union</p>	<p>Transformative Pathways</p> <p>European Business & Biodiversity Platform</p> <p>Webinar: Transforming finance for biodiversity and climate action</p>  <p>Meet the panelists:</p> <p>Francisco Alpizar Chair of the Environmental Economics and Natural Resource Group (ENR) Wageningen University and Research</p> <p>Funded by the European Union</p>
<p>Transformative Pathways</p> <p>European Business & Biodiversity Platform</p> <p>Webinar: Transforming finance for biodiversity and climate action</p>  <p>Meet the panelists:</p> <p>Hadrien Gaudin-Hamama Impact & ESG Specialist, expert of Resources & Biodiversity at Mirova; Co-chair of the Positive Impact working group of the Finance for Biodiversity Foundation</p> <p>Funded by the European Union</p>	<p>For more information and registrations: shorturl.at/imIUW</p> <p>Transformative Pathways</p> <p>TRANSFORMING FINANCE FOR BIODIVERSITY AND CLIMATE ACTION WEBINAR</p> <p>11:00-12:00 (CEST), 26 April 2024</p> <p>Online</p> 

Annex II – Invitation



Webinar: Transforming finance for biodiversity and climate action

Date: April 26th

Time: 11:00–12:00 (CEST)

Registration link in email



Funded by
the European Union



Programme

5 min	Welcome and introduction to the Transpath project	Host: Jeanne Nel, Wageningen University & Research
10 min	Painting a policy context for transforming finance	Kevin Flowers, Deputy Head of Unit Sustainable Finance, DG Environment
10 min	Visions of transformation for the financial sector	Francisco Alpizar, Wageningen University & Research
10 min	Transforming finance for action	Hadrien Gaudin-Hamama, Mirova
20 min	Discussion	Moderator: Anne-Marie Bor, EU Business & Biodiversity Platform
5 min	Next steps and closure	Host: Jeanne Nel, Wageningen University & Research

We look forward to seeing you at the webinar!



Annex III – Presentations

First presentation (Dr Jeanne Nel and Anne-Marie Bor):



Transpath.eu

Enabling & accelerating nature-positive & climate-proofed societies

Today's Webinar:

How can we strengthen efforts on transforming finance for nature and climate?

What is needed to amplify and sustain societal transformations in the long term?

Jeanne Nel
Programme Lead: Biodiverse Environment
Wageningen University & Research

Funded by the European Union



Question and Answer

Open (1) Answered (0) Download

This is question 1 to panelist 2.

Vote

Our 'behind the scenes' experts:
Paul Dingkhun
Maria Naranjo-Barrantes
Sylvia Karlsson-Vinkhuyzen
Zuzana Harmáčková
Eszter Kovacs



The EU B&B Platform

European Business & Biodiversity Platform

Website
https://green-business.ec.europa.eu/business-biodiversity_en
Email
EU_B&B_Platform@icf.com

Anne-Marie Bor, Lead Workstream Finance of the EU B&B Platform
Co-Founder and Board member of the Finance for Biodiversity Foundation

Thursday 26th April 2024

ICF nextgreen ARCADIS



Transition objective

% SECTOR SUSTAINABLE

PHASE 1: INCEPTION (2008 - 2010)
• From active engagement with pioneers to the development of CUP
• From initial guidance to the creation of initial standardised biodiversity measurement processes
• Initial mobilisation efforts and outreach
• Continuous engagement with enabling environment

PHASE 2: FIRST MOVES (2011 - 2015)
• Strengthening integration of biodiversity across the sectors of the industry
• Scaling up mobilisation efforts through efficient and sustainable processes
• Addressing key bottlenecks of businesses
• Continuous engagement with enabling environment

PHASE 3: CRITICAL MASS (2016 - 2019)
PHASE 4: INSTITUTIONALIZATION (2020 - 2025)



Improving the practices of financial institutions

WS Finance. Through peer-to-peer learning and collaboration WS Finance engages with leading and interested financial institutions through their biodiversity journey. It increases the understanding of the risks and opportunities linked to biodiversity loss and restoration for the financial sector.

- **Key focus for 2024:** nature positive Investment
- **Community** of 40 banks, investors, insurers and impact investors
- **Webinar series** with EFB Foundation, the PRI and UNEP FI, see [overview](#)
- **Papers**
 - [Overview of finance and biodiversity initiatives](#)
 - [Overview of collaborative engagement initiatives](#)
 - [Guide on measurement approaches](#)

Finance and Biodiversity
Collaborative engagement overview




Programme
Three 10-min presentations followed by a Q&A

Visions of transformative change for the financial sector
Francisco Alpizar
Prof. Environmental and Natural Resource Economics, Wageningen University & Research

EU sustainable finance policy: supporting a shift from 'market fixing' to 'market shaping'
Kevin Flowers
Deputy Head of Unit Sustainable Finance, DG Environment

Strategies for transforming finance in action
Hadrien Gaudin-Hamama
Impact & ESG Specialist, Mirova


Second presentation (Dr Francisco Alpizar):



Visions of transformative change for the financial sector

Paul Dingkuhn
Jeanne Nel
Francisco Alpizar


Wageningen University and Research



Funded by the European Union

Let's start with the basics: what is Transformative Change?

- IPBES Global Assessment (2019): "a fundamental, system-wide reorganization across technological, economic and social factors, including paradigms, goals and values"
- Transformative Change is a process, rather than an end point
- Transition (within a sector or system) ≠ Transformation (broader societal changes)
- Transformative change is purposive. It can be launched, accelerated, steered, monitored

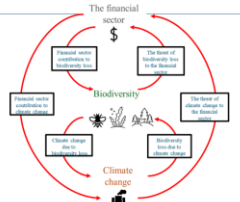


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The financial sector can be a central actor in transforming our society towards biodiversity and climate positive outcomes

Why?

- Finance is the central nervous system of the market economy
- It has a heavy impact on the environment
- It faces a lot of damage from environmental degradation



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Sustainability is a growing topic in the financial sector

3 signals of growing interest

- Voluntary initiatives:**
 - NGFS...networks
 - TNFD...taskforces
 - PRI...principles
 - ISSB...standards
 - ...
- Tools / Products:**
 - Offsetting schemes
 - Green Bonds
 - Sustainability-linked loans
 - ESG rating
 - ...
- EU Policies:**
 - Green Taxonomy
 - CSRD
 - SFRD
 - EU Green Bond Regulation
 - ...

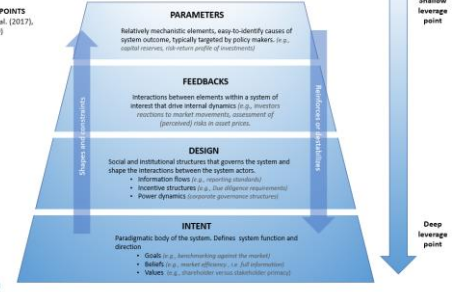
3 observations of current situation

- Emphasis on information:**
 - Disclosure
 - Risk assessment
- Focusing on rewarding good practices:**
 - (voluntary) standards
 - "Green" taxonomy
- Framed as a technical problem:**
 - Technical responses
 - Little mention of institutional and paradigmatic lock-ins

➔ Need to dig deeper? I.e. beyond short-term, practical measures

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SYSTEMIC LEVERAGE POINTS
Inspired by Meadows et al. (2012), after Meadows (1999)



PARAMETERS
Relatively mechanistic elements, easy-to-identify causes of system outcome, typically targeted by policy makers (e.g., capital flows, risk-retail profile of investments)

FEEDBACKS
Interactions between elements within a system of interest that drive internal dynamics (e.g., investors' reactions to market movements, containment of (perceived) risks in asset prices)

DESIGN
Social and institutional structures that govern the system and shape the interactions between the system actors.
• Information flows (e.g., reporting standards)
• Incentive structures (e.g., due diligence requirements)
• Power dynamics (corporate governance structures)

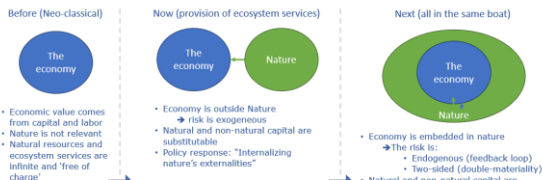
INTENT
Paradigmatic body of the system. Defines system function and direction.
• Goals (e.g., benchmarking against the market)
• Beliefs (e.g., market efficiency, i.e. self-interest)
• Values (e.g., shareholder versus stakeholder primacy)

Shallow leverage point
Deep leverage point

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Paradigmatic shift 1: From external to embedded financial systems

Before (Neo-classical) Now (provision of ecosystem services) Next (all in the same boat)



- Before (Neo-classical):**
 - Economic value comes from capital and labor
 - Nature is not relevant
 - Natural resources and ecosystem services are infinite and 'free of charge'
- Now (provision of ecosystem services):**
 - Economy is outside Nature
 - risk is exogenous
 - Natural and non-natural capital are substitutable
 - Policy response: "Internalizing nature's externalities"
- Next (all in the same boat):**
 - Economy is embedded in nature
 - The risk is:
 - Endogenous (feedback loop)
 - Two-sided (double-materiality)
 - Natural and non-natural capital are complementary
 - Limited substitution, if any
 - Policy response: Earth-system stability is primary condition for financial stability
 - Embrace complexity: precautionary principle

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Paradigmatic shift 2: From market fixing to market shaping

Fix the market and follow

Efficient Market Hypothesis: Rational investors make optimal decisions using complete market information.

Role of the state: market referee + corrector of market failures

Policy intervention:

- Promoting (fair) competition
- Enforcing property rights
- Increase informational flows

Strategy: Fix markets if needed and let them do their magic.

Shape the market and lead

Change rules to 'level the playing field'

Role of the state: Steer the economy toward the realisations of environmental and social goals

Role of business: from hedging against risk to leading the change

Policy interventions:

- Public investment
- De-risking (provide room for experimentation and innovation)
- Strong regulatory framework

Strategy: Society sets the direction and finance delivers the change

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Paradigmatic shift 3: From shareholder primacy to stakeholder value

Shareholder primacy

Social Responsibility of businesses: "Increase its Profits" (Friedman, 1970) → maximization of **shareholder value**

Corporation is viewed as shareholder property

Fiduciary Duty = Maximization of (short term) financial gains for investors

Corporate governance structure: power concentrated among shareholders

Stakeholder value

Social responsibility of businesses: increase and balance the interest of **all stakeholders**

Corporation is viewed as a common with multiple overlapping claims

Fiduciary Duty = Maximization of integrated value

Corporate governance structure: power distribution among stakeholders. Formally introducing socio-environmental objectives

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Thank you

Francisco, Paul, and Jeanne

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Third presentation (Kevin Flowers):

Transforming finance for biodiversity and climate action

EU sustainable finance policy: supporting a shift from 'market fixing' to 'market shaping'

Kevin Flowers, EU Commission
26 April 2024

What is GDP? What is 'growth'?

GDP

≠

GDP

values & belief systems?

Sustainable finance policy agenda: strategic rationale

Supporting actions:

- Investment needs & gaps
- Well-defined transition pathways
- Internal market for financial (complete the CMU), energy and telecom sectors
- Industrial ecosystems

Transition financing is flowing to where it is needed

The financial sector is engaging and nudging companies towards the needed transitions

The 'negatives' are understood, identified and being addressed:

- Environmentally harmful funding
- Financial market stability (environmental risk exposures)

Financial sector enabling frameworks & conditions are in place:

- Data, transparency, & disclosures
- Coherence
- Technical support
- Skills and competencies
- Financing mechanisms (blended finance, etc.)
- International cooperation & coherency

Socio-economic enabling frameworks & conditions:

- Social fairness
- Price signals
- Socio-econ model

EU sustainable finance policy: action-to-date

Transparency, disclosure, classification

- Taxonomy
- Sustainable Finance Disclosure Regulation (SFDR)
- Low carbon benchmarks Regulation
- EU Green Bonds Standard
- ESG ratings & agencies
- Corporate sustainability Reporting Directive (CSRD) & ESAP
- Transparent & Align (TCA)
- MFSD refinements

Transition financing ('fresh' finance to address climate & environment investment needs/gaps)

- Recommendation on facilitating finance for the transition to a sustainable economy
- EU Green Bond Standard

Risk management

- Biodiversity/nature risk management assessment
- Sustainable Finance Disclosure Regulation (SFDR)
- DECO guidance: supervisory risk assessment framework
- TNFD

EU sustainable finance policy: action-to-date

Transparency, disclosure, classification

'Nudging' effect

- Taxonomy
- Sustainable Finance Disclosure Regulation (SFDR)
- Low carbon benchmarks Regulation
- EU Green Bonds Standard
- ESG ratings & agencies
- Corporate sustainability Reporting Directive (CSRD) & ESAP
- Transparent & Align (TCA)
- MFSD refinements

Transition financing ('additional' finance to address environment investment gaps)

Financing effect

- Recommendation on facilitating finance for the transition to a sustainable economy
- EU Green Bond Standard

Risk management

Educational & competencies effect

- Biodiversity/nature risk management assessment
- Sustainable Finance Disclosure Regulation (SFDR)
- DECO guidance: supervisory risk assessment framework
- TNFD

What next?

Transparency, disclosure, classification

Coherence & Usability

- Taxonomy
- Sustainable Finance Disclosure Regulation (SFDR)
- Low carbon benchmarks Regulation
- EU Green Bonds Standard
- ESG ratings & agencies
- Corporate sustainability Reporting Directive (CSRD) & ESAP
- Transparent & Align (TCA)
- MFSD refinements

Financial sector supports the needed transitions

Priority Focus?

- Engagement with key sectors and companies within these sectors
- Sectoral transition pathways
- Credible company transition plans (reference points for targets (ambition level), proposed actions (sectoral transition plans, ...), etc.)
- Loan financing: S&MCA (supporting the innovators/ disruptors), completing the CMU
- Addressing the price signal failure

Risk management

Implementation/ mainstreaming

- Biodiversity/nature risk management assessment
- Sustainable Finance Disclosure Regulation (SFDR)
- DECO guidance: supervisory risk assessment framework
- TNFD

What next?

Transparency, disclosure

- Transparency & Aligned (NCA)
- MFID refinements

Financial sector supports the needed

- CMU...
- Addressing the price signal failures

Risk management

- Addressing the price signal failures

A 'fixing the market' mindset?

'Fixing' vs 'Shaping'

Fixing market failures

- Information/disclosure
- Short-termism
- Pricing signals

Shaping the market

- Materiality assessment & transition plans: learning & competencies
- Changing the quality of the 'P' in GDP
- Sustainable sectoral transition pathways: building a common vision of the desired future

CSRD & ESRS

SF Disclosure Regulation

SF Taxonomy

Nature/biodiversity risk assessment

CSDDD

Sustainable Product Initiative & ESPE

Environmentally harmful subsidies

European Semester process

Industrial Ecosystems initiative

* Letta report on Internal Market: the SP freedom

Thank you

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