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SUSTAINABILITY AND CSR IN THE BANKING SECTOR: THE CASE OF ILLIMITY BANK

SOSTENIBILITÀ E RESPONSABILITÀ D'IMPRESA NEL SETTORE BANCARIO: IL CASO DI ILLIMITY BANK

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Introduction

The following work intends to delve deeper into the specific "sustainable" measures adopted by banks. The topic is very interesting considering that the attention towards the environment and its impacts began precisely by highlighting the lack of operational ethics on the part of the economic activities that banks normally finance. The banks have had to review their *modus operandi* both by virtue of the introduction of the legislation that requires it and for an image assessment made necessary by raising public awareness on the topic.

Sustainability in the banking sector is evident both in the activities carried out to manage administrative operations and in the selection of financed activities which, where they do not comply with the implications required by sustainability, risk not receiving attention when choosing to finance them. Sustainability has taken on a more complete importance in the definition of a new, more global impact assessment, the ESG (Environmental, Social and Governance) which has involved attention to a vast area of interest which concerns activities that have the potential to impact on the environment, on society but also on the ways in which functions are distributed in the company.

The work highlights how banks play a crucial role in the economy by being able to significantly influence sustainable development through their investment policies, risk management and operational practices adopted.

The banks are increasing the financing of sustainable projects, such as those involving renewable energy, energy efficiency and green infrastructure (such as the issuance of *green bonds*, which are bonds intended to finance ecological initiatives, but also integrate risk climate in their assessment processes considering the potential impact of climate change on their lending and investment portfolios). The banks are also incorporating ESG criteria into their investment decision-making processes by avoiding unsustainable sectors, such as those that use fossil fuels, and incentivising only sustainable ones. Even internally, banks are adopting more sustainable practices in their daily operations, reducing energy consumption and carbon emissions, as well as improving waste management and the adoption of green technologies or supporting social projects and introducing rewards in remuneration policies which incentivize managers to achieve sustainable objectives. Banks are also developing new financial products that support sustainability, such as current accounts and green loans granted to support low-impact initiatives. Among other things, they offer incentives to customers who demonstrate that they adopt sustainable practices. Additionally, they are working to increase awareness among their customers and employees regarding the importance of sustainability by promoting financial education initiatives that incorporate sustainability themes. Finally, financial institutions often collaborate with other organizations and participate in global initiatives to promote sustainability. For example, many banks adhere to the United Nations Principles for Responsible Investment (PRI) or the Responsibility of Banks (PRB) Principles. After describing these aspects, the work addresses the specific case of the illimity bank by interviewing the sustainability team, in detail one of the main responsible for sustainability, trying to identify the application aspects of the problem (The literature analysis shows a constant development of notions and valid indications for the adoption of ESG principles, but the illimity bank has taken a number of measures to ensure the adoption of sustainability guarantees though, rather than the indications of the doctrine, regulatory obligations seem to prevail). In addition to trying to identify any gaps in the literature, the research question we ask is whether in practice banks implement what has been described by the doctrine, if they deviate from it and why. In addition, we will try to understand what benefits banks get from the introduction of sustainable practices.

Introduzione

Il lavoro che segue intende approfondire le specifiche misure "sostenibili" adottate dalle banche. L'argomento è molto interessante considerando che l'attenzione all'ambiente e ai suoi impatti è partita proprio dall'evidenziare la mancanza di etica operativa da parte delle attività economiche che le banche normalmente finanziano. Le banche hanno dovuto rivedere il loro modus operandi sia in virtù dell'introduzione della legislazione che lo richiede sia per una valutazione dell'immagine resa necessaria dalla sensibilizzazione del pubblico sull'argomento.
La sostenibilità nel settore bancario è evidente sia nelle attività di gestione delle operazioni amministrative sia nella selezione delle attività finanziate che, qualora non rispettino le implicazioni richieste dalla sostenibilità, rischiano di non ricevere attenzione quando si sceglie di finanziarli. La sostenibilità ha assunto un'importanza più completa nella definizione di una nuova valutazione d'impatto più globale, l'ESG (Environmental, Social and Governance) che ha coinvolto l'attenzione su una vasta area di interesse che riguarda le attività che hanno il potenziale di impatto sull'ambiente, sulla società ma anche sulle modalità di distribuzione delle funzioni in azienda.
Il lavoro evidenzia come le banche svolgano un ruolo cruciale nell'economia, potendo influenzare in modo significativo lo sviluppo sostenibile attraverso le loro politiche di investimento, la gestione del rischio e le pratiche operative adottate.
Le banche stanno aumentando il finanziamento di progetti sostenibili, come quelli riguardanti le energie rinnovabili, l'efficienza energetica e le infrastrutture verdi (come l'emissione di obbligazioni verdi, che sono obbligazioni destinate a finanziare iniziative ecologiche, ma anche integrare il clima di rischio nei loro processi di valutazione considerando il potenziale impatto dei cambiamenti climatici sui loro portafogli di prestiti e investimenti). Le banche stanno inoltre integrando i criteri ESG nei loro processi decisionali di investimento, evitando i settori insostenibili, come quelli che utilizzano combustibili fossili, e incentivando solo quelli sostenibili. Anche internamente, le banche stanno adottando pratiche più sostenibili nelle loro attività quotidiane, riducendo il consumo di energia e le emissioni di carbonio, nonché migliorare la gestione dei rifiuti e l'adozione di tecnologie verdi o il sostegno a progetti sociali e introdurre ricompense nelle politiche retributive che incentivano i manager a raggiungere obiettivi sostenibili. Le banche stanno inoltre sviluppando nuovi prodotti finanziari a sostegno

della sostenibilità, come i conti correnti e i prestiti verdi concessi per sostenere iniziative a basso impatto. Tra le altre cose, offrono incentivi ai clienti che dimostrano di adottare pratiche sostenibili. Inoltre, stanno lavorando per aumentare la consapevolezza tra i loro clienti e dipendenti sull'importanza della sostenibilità promuovendo iniziative di educazione finanziaria che incorporano temi di sostenibilità. Infine, le istituzioni finanziarie spesso collaborano con altre organizzazioni e partecipano a iniziative globali per promuovere la sostenibilità. Ad esempio, molte banche aderiscono ai principi delle Nazioni Unite per gli investimenti responsabili (PRI) o alla responsabilità delle banche (PRB).
Dopo aver descritto questi aspetti, il lavoro affronta il caso specifico di illimity bank intervistando il team della sostenibilità, nel dettaglio uno dei principali responsabili della sostenibilità, cercando di identificare gli aspetti applicativi del problema (l'analisi della letteratura mostra un costante sviluppo di nozioni e valide indicazioni per l'adozione dei principi ESG, ma la banca illimity ha abbracciato una serie di misure volte a garantire l'adozione di garanzie di sostenibilità anche se, piuttosto che le indicazioni della dottrina, gli obblighi normativi sembrano prevalere).
Oltre a cercare di individuare eventuali lacune presenti nella letteratura, la domanda di ricerca che ci poniamo è se in pratica le banche implementano ciò che è stato descritto dalla dottrina, se si discostano da essa e perché. Inoltre, cercheremo di capire quali benefici ottengono le banche dall'introduzione di pratiche sostenibili.

CHAPTER I

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

1 Sustainability: an analysis of the concept

The term "*sustainability*" derives from the Latin word *sustinere*, which means to support, in the sense of defending and conserving, or taking care of something. This notion was initially imposed in the 80s of the last century to indicate environmental protection needs which, in the opinion of scholars, politicians and public opinion, were fully felt in those years in which pollution problems were quite widespread.

Today, the concept of sustainability and its implications for development are multiple and subject to different interpretations, however, the universally recognized definition originates from the 1987 Brundtland Report entitled "Our common future" [1], which emphasizes the principles of intergenerational equity and intragenerational. This report was discussed during the presentation of the UN environmental program in Stockholm which is today remembered as a first call for global attention on the issues of pollution and environmental degradation caused by human activities.

The word "sustainability" lent itself to configuring the dogma that these activities would have to respect in their implementation processes, fully assuming this scope just five years later, at the *Rio de Janeiro Conference on Environment and Development,* held in 1992, also known as "The Earth Summit", in which world heads of state discussed global environmental issues for the first time. The Conference defined sustainable development *as "development capable of ensuring the satisfaction of the needs of the present generation without compromising the ability of future generations to meet their own needs*". The term had the ability to draw attention to the topic so much so that since then, sustainability has constituted the shared reference of global and domestic environmental policies, in the awareness that, for its affirmation, the contextual commitment of all countries is necessary. Over time, the concept of sustainability has evolved significantly from its earliest iterations. Initially focused mainly

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[1] The Report is known as the Broundtland Report, published in 1987, by the *World Commission on Environment and Development* (WCED).

on ecological issues, it then moved towards a broader framework that includes environmental, economic and social dimensions. These dimensions are viewed in a synergistic and systemic way, considering them to be effects that develop in unison, contributing to a holistic vision of progress and well-being that surpasses conventional measures such as GDP. In its essence, attention to sustainability implies the search for a coherent and ideally improving state of well-being in all environmental, social and economic areas, ensuring, at the same time, that future generations inherit a quality of life no less than that of the present. In other words, the new concept of development takes into account how resources are used, their impacts, their origin and their reproducibility. It is important to understand that sustainability is a "dynamic" concept, continuously influenced by the evolution of technology and changes in the interaction between ecological and anthropic systems[2]. Precisely because of the acceleration of the development of technology, the various countries have shown a strong attention to the topic, as demonstrated by their policies.

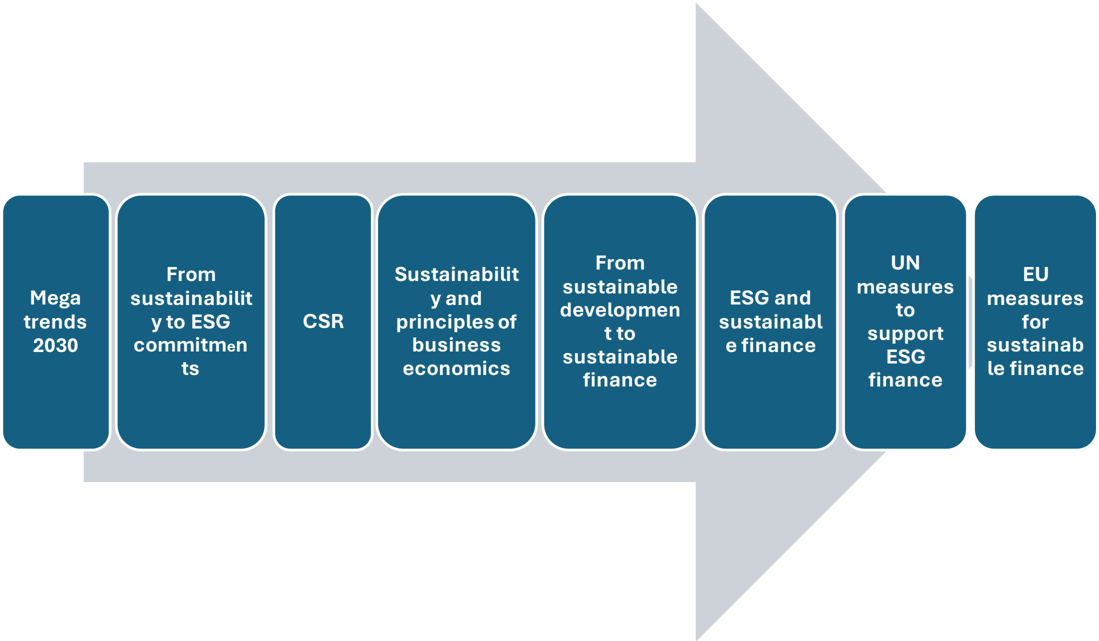
Already following the aforementioned Rio Conference in 1992, some policies envisaged by *Agenda 21***,** the final report which had supported the solidarity responsibilities of the countries, were prepared.

Agenda *21* highlighted the role of economic and social power relations in production of environmental damage. The dynamics that characterize the activities in the most backward countries, where poverty and illiteracy are widespread, proved to be very dangerous, while in capitalist countries, in fact, the damage to the environment derives from the production methods and volumes, in the poorest ones, they are connected to the *modus vivendi* of the populations, often regardless of the consequences of their actions. In the “World Summit on Sustainable Development” in Johannesburg**,** which, as has been said, came held in 2002, Agenda 21 actions were further strengthened (HTTPS://WWW.ESG360.IT/).

On that occasion, rules began to be developed aimed at improving the quality of life while respecting the needs of the environment, strengthening the dynamics that take place across the economic, social and environmental (ESG) dimensions. This assumption started a reflection that still continues today, namely the interrelationships between economy, environment and society, and their mutual influences. Reporting of the results achieved in the previous decade also began in Johannesburg, which turned out to be very far from expectations. Since then, the term *sustainability* it has been used by politics, finance, the mass media and environmental

[2] https://www.esg360.it/esg-world/sostenibilita-significado-obiettivi-e-perche-e-important/

organizations to indicate the urgency of a review of production and consumption methods. Below is a summary of the discussion of the topic in the remainder of the chapter.



1.1 Strengthening commitments towards sustainable objectives

Over time, the ESG has been enriched in content thanks to an evolution that was activated thanks to the gradual awareness-raising process that has intensified in recent decades, which has seen a progressive definition of institutional commitments towards the implementation of specific policies. A significant starting point lies in the Millennium Development Goals, introduced with the United Nations Millennium Declaration in September 2000. This ambitious program included eight objectives, 21 targets and 60 indicators and saw the 193 UN member countries commit to achieving them by 2015. By combining social and economic objectives we are committed to pursuing the following objectives[3]:

● *Elimination of extreme poverty and hunger;*
● *Universalization of primary education;*
● *Promotion of gender equality and women's empowerment;*
● *Reduction of infant and maternal mortality;*
● *Reduce the spread of AIDS, malaria and many other diseases;*

[3]United Nations Organitation, *Transforming our world: Agenda 2 030 for Sustainable Development* , Brussels, 21 October 2015

● *Environmental conservation;*
● *Partnership for sustainable development.*

After the expiry of the Millennium Development Goals (MDGs), the United Nations General Assembly officially adopted the 2030 Agenda which includes 17 Sustainable Development Goals (SDGs) which are the result of a broad consultation process at international level, national and local. In practice, they represent a tangible roadmap for a more inclusive, equitable and environmentally friendly world, serving as a driver for action in the coming years. The Sustainable Development Goals focus on five critical areas for humanity and the planet, often referred to as "the 5 Ps": People, Planet, Prosperity, Partnership and Peace (UNITED NATIONS ORGANITATION, 2015).

The 17 SDGs outline an ambitious agenda and are further divided into 169 specific targets and 304 indicators, all to be achieved by 2030. Compared to the MDGs, the SDGs are considered more universal and comprehensive as they address new challenges, such as climate change, sustainable consumption and innovation in all sectors.

The issue of sustainability also needs to be addressed always paying attention to the inequality that prevents well-being from being equally distributed among everyone.

In this sense, equality of opportunities should be promoted, income distribution improved and discrimination opposed, with the aim of reducing inequality in all areas. The first aspect concerns policies aimed at guaranteeing equal access to opportunities, the second concerns policies that influence the redistribution of income, wages and profits while the third element refers to policies aimed at addressing prejudice and discrimination, promoting participation of disadvantaged groups in the economic, social and political spheres (UNITED NATIONS ORGANITATION, 2015).

Ultimately, the Sustainable Development Goals represent a global commitment to a better and more sustainable future for all.

The 17 targets that currently commit the member countries of the United Nations are the following:

Goal 1 – End all forms of poverty in the world;

Goal 2 – End hunger, achieve food security, improve nutrition and promote sustainable agriculture;

Objective 3 – Guarantee health and well-being for all and for all ages;

Goal 4 – Provide quality, equitable and inclusive education and learning opportunities for all;

Goal 5 – Achieve gender equality and empower all women and girls;

Objective 6 – Ensure the availability and sustainable management of water and sanitation for all;

Goal 7 – Ensure access to affordable, reliable, sustainable and modern energy systems for all;

Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;

Goal 9 – Build resilient infrastructure and promote innovation and equitable, responsible and sustainable industrialization;

Goal 10 – Reduce inequality within and between nations;

Goal 11 – Make cities and human settlements inclusive, safe, durable and sustainable;

Objective 12 – Guarantee sustainable production and consumption models;

Objective 13 – Promote actions, at all levels, to combat climate change;

Goal 14 – Conserve and sustainably use the oceans, seas and marine resources for sustainable development;

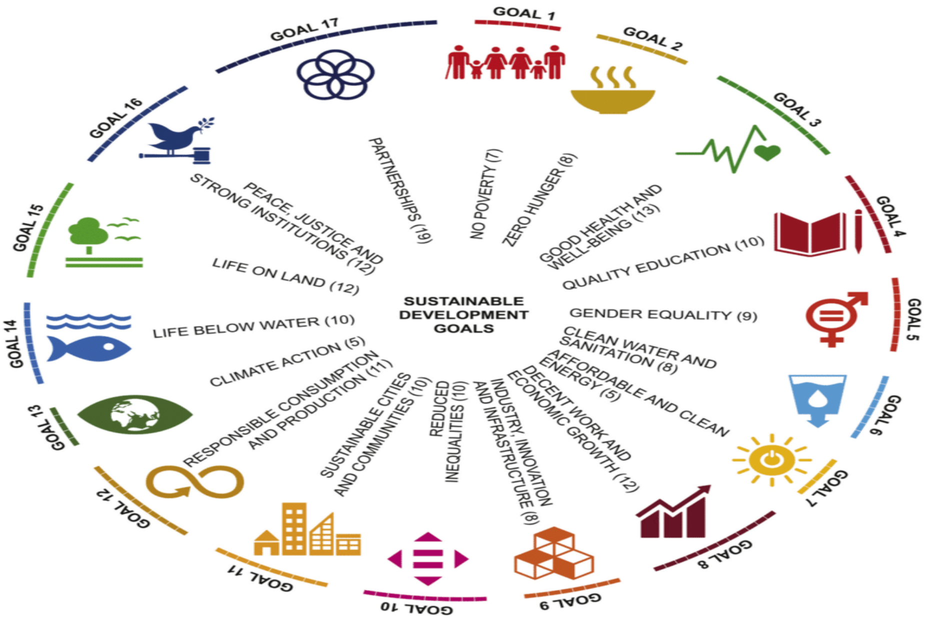
Goal 15 – Protect, restore and promote sustainable use of the Earth's ecosystem;

Goal 16 – Promote peaceful and inclusive societies for sustainable development;

Goal 17 – Strengthen implementation tools and renew the global partnership for sustainable development.

A year considered crucial in the definition of sustainable development goals is undoubtedly 2015 when two crucial events occurred, which mark a historic moment for the planet in terms of strengthening strategies. Below is a figure that summarizes the 17 objectives

Fig. 1: UN Sustainable Development Goals (SDGs)



Source: Researchgate.net

One of these was COP 21, which saw the 197 member states of the United Nations Framework Convention on Climate Change (UNFCCC) adopt what is known as the first universal, legally binding agreement on climate change. Today, 191 states (out of 195 signatories) are officially part of this pact, all united by a common objective: to keep the increase in average global temperature well below 2°C compared to pre-industrial levels, limiting it to 1.5 °C, (since it has been calculated that this level would substantially reduce the risks and effects of climate change). The agreement, recognized as a key step towards climate neutrality by the end of the century, outlines a “global action plan”. The point on which there is agreement is that tackling the problem of air emissions represents a fundamental effort in the fight against climate change. Internationally agreed targets to mitigate these emissions include several points:

- Keep the increase in global average temperature well below 2°C above pre-industrial levels as a long-term goal;
- Aim to limit the increase to 1.5°C, which would significantly reduce the risks and impacts of climate change;
- Reduce global emissions to the maximum level as soon as possible, while recognizing the need for longer timescales for developing countries;
- Implement rapid emissions reductions based on the best available scientific knowledge to achieve a balance between emissions and removals in the second half of the century.

To achieve these goals, countries have submitted comprehensive national climate action plans. However, they were not deemed adequate to achieve the agreed objectives, even though they provide a path for future actions[4].

In 2015, the UN countries also signed the Paris Agreement in which transparency and accountability objectives were established at a global level (https://eur-lex.europa.eu):

- Meeting every 5 years to evaluate collective progress towards long-term goals and update national contributions;
- Report to other Member States and the public on efforts to address climate change;
- Reporting of progress made towards the commitments set out in the agreement through a transparent and accountable system.

Finally, the agreement commits to addressing the impacts of climate change by making use of some specific commitments:

- Strengthen the capacity of companies to address these impacts;
- Provide continuous and coherent international support for the adaptation of developing countries;
- Recognize and address the losses and damages associated with the negative effects of climate change, promoting cooperation and support in various areas, such as early warning systems and emergency preparedness[5].

Another important novelty dating back to 2015 was the publication of Pope Francis' second encyclical, known as "Laudato Si" which constitutes a universal appeal to all humanity, regardless of religious belief, age or social and economic *status*, about making a commitment to the future[6].

The encyclical poses a reflection "What kind of world do we want to leave to those who come after us, to the children who are growing up?" (POPE FRANCIS, 2015).

The encyclical explores the concept of integral ecology, embracing not only the natural environment but also the economy, society, culture and daily life as part of a single paradigm. Pope Francis underlines the importance of an "ecological conversion", a profound change so that humanity actively engages in the care and protection of our planet, defined as "the common home".

[4] https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52018DC0097&from=EN

[5] https://www.esg360.it/normative-e-compliance/ordine-sul-clima-di-parigi-che-cose-cosa-chiede-come-sta-evolvendo/

[6] Pope Francis, *Laudato si'.* Edizioni Piemme, Rome, 2015

In the part entitled "What is happening to our common home", the Pope warns of the serious impact that human activities are having on the ecosystem and underlines the possibility of counteracting these effects by adopting new production methods that favor reuse, recycling and responsible use of non-renewable resources. According to the Pope, climate change is a global challenge and his speech addresses the environmental crisis from different angles which include pollution, climate change, waste management, water issues, loss of biodiversity and global inequalities. This is an important exhortation given that it testifies to the existence of coordination between religious and institutional values, in particular with the United Nations Sustainable Development Goals (SDGs). Pope Francis also provided some guidelines and lines of action to overcome the self-destructive tendency, based on four fundamental principles (POPE FRANCIS, 2015):

● Dialogue: Pope Francis calls for open and transparent dialogue so that personal needs or deep-rooted ideologies do not jeopardize the common good;
● Christian faith: according to the Pope, Christian spirituality offers a different approach to the quality of life, promoting a lifestyle free from the obsession with consumption;
● Ecological education and awareness: these are crucial challenges that require the attention of all educational sectors, including schools, families, the media and catechesis. The objective is to promote an alternative lifestyle, starting from daily gestures such as saving water, and influence consumer choices to encourage companies to consider their impact on the environment;
● Global governance: The Pope criticizes international politics and is harsh on world environmental summits, saying they have failed to live up to expectations in recent years due to a lack of political will to reach meaningful and effective global agreements. It highlights, among other things, the need for global governance to manage the commons.

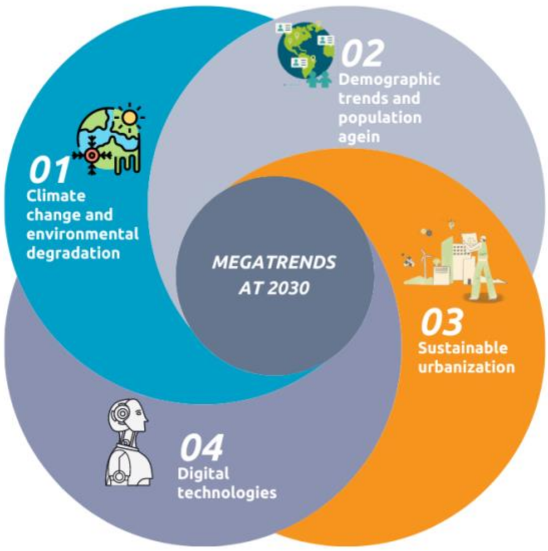
The Encyclical stands out for its revolutionary character, since the Pope dialogues with all of humanity, regardless of religious faith, highlighting the events that are happening in the life of each individual and of the world as a whole. The objective is to underline the importance of raising awareness in the world on these issues, so that no one remains indifferent and all humanity is united by the same concern. Although the Encyclical has no normative value, it is surprising how much importance is given to sustainability at an international level, by all sectors of society.

1.1.2 Megatrends by 2030

In the report "2020 – Shaping the Trends of Our Time", the United Nations identified four megatrends, i.e. global challenges considered significant in the coming decades[7]:

- Climate change and environmental degradation;
- Demographic trends and population aging;
- Sustainable urbanization;
- Digital technologies.

Fig.1.1: The main Megatrends 2030



Source: Own re-elaboration of the Report of the UN Economist Network for the UN 75th Anniversary Shaping the Trends of Our Time (September 2020, UN), 11 September 2022

The 2030 UN megatrends are closely linked to sustainability in finance through the Sustainable Development Goals (SDGs) which concretely guide global policies towards equitable and sustainable development (HTTPS://WWW.SDGFUND.ORG). Mega trends have identified the most far-reaching long-term objectives, the SDGs implement them in the operational context. Schematically, the relationship between SDGs and Megatrends refers to: Sustainable finance: Sustainable finance refers to any form of financial service that integrates environmental, social and governance (ESG) criteria into business or investment decisions.

[7] https://www.sdgfund.org/mdgs-sdgs

UN Megatrends encourage investors and financial institutions to consider the social and environmental impact of their financial decisions;
Green Bonds and Climate Bonds: Megatrends promote the adoption of green and climate bonds to finance projects that have environmental benefits, such as renewable energy, energy efficiency, water management and carbon emissions reduction;
ESG Integration: Companies are pressured to integrate ESG criteria into their operations and financial reporting. This involves greater transparency and accountability, aligning with SDGs and Megatrends to promote sustainable business practices;
Positive impact investments: Investors are increasingly looking for investment opportunities that not only generate a financial return, but also a positive impact on society and the environment, as foreseen by the Mega trends and in line with the SDGs, which aim to reduce inequalities, improve education and promote clean and accessible energy;
Transition to a low-carbon economy: UN Megatrends push for a transition to low-carbon economies. This requires significant investments in renewable energy, sustainable infrastructure and technological innovations that reduce environmental impact;
Innovation and technology: The adoption of advanced technologies to address global challenges, such as climate change and resource scarcity, is crucial is one of the objectives of sustainable finance and Mega trends that support technological innovation and research that contribute to these objectives.

Climate change and environmental degradation

The roots of climate and environmental change are deeply rooted in our societies and in the modus operandi of businesses. Addressing this problem requires substantial changes in both supply and demand, including more conscious lifestyle choices in which consumer preferences and behaviors are directed towards preserving the environment and greener production processes, greater efficiency in the use of resources and greater corporate responsibility. The integration of the concept of "natural capital" into development policies could also contribute to increasing attention to sustainability[8]. In particular, a significant transition towards sustainable food production systems that substantially influence human land use is considered essential[9]. Targeted actions, focusing on biodiversity and climate, could

[8] https://www.sdgfund.org/mdgs-sdgs
[9] United Nations Organization, *Transforming our world: Agenda 2030 for Sustainable Development* , Brussels, 21 October 2015

help preserve soil fertility and livelihoods. For example, there are many ways to promote natural capital protection through initiatives such as restoring mangroves to mitigate flooding. To maximize the impact of integrated policy in addressing these issues, multifunctional approaches such as solutions based on the combination of pro-nature and pro-development interventions, the promotion of neutrality and the circular economy will be needed. A major Climate Action Agenda initiative is currently underway to accelerate the transition from fossil to clean and renewable energy sources, which sees governments taking advantage of market- and price-based incentive mechanisms, such as taxation of carbon and the elimination of subsidies for the use of fossil fuels. Furthermore, measures such as the adoption of minimum fuel efficiency standards for vehicles and air quality regulations, together with the gradual elimination of all tax incentives for polluting industries, have become common policy of many countries which adopt it following a holistic approach (UNITED NATIONS ORGANIZATION, 2015).

Obtaining financing for climate mitigation and adaptation is also key to implementing national climate action plans, but so far the level deemed necessary has not yet been reached. Multilateral financial institutions and, increasingly, national development banks are also playing a significant role, but mobilizing additional financing, including from the private financial sector, is considered essential [10]. At the moment, innovative tools, such as debt-climate trading, potentially offer new solutions, and measures to monitor progress and sustainability are being refined (https://www.sdgfund.org).

Demographic trends and population aging

Demographic trends are a key element in socioeconomic dynamics, but their impact is long-term and slow in nature, making rapid change through immediate policies difficult. However, targeted strategies, based on careful planning, can help manage the effects of population aging and changes in demographic composition. A crucial aspect is expanding access to reproductive and sexual health services, which not only supports individual choice and reduces unwanted pregnancies, but also promotes the expansion of education and economic opportunities for women. Investing in education and healthcare for all is essential to improve productivity and fully exploit potential demographic dividends. Furthermore, lifelong learning is becoming increasingly crucial to adapt to technological changes and maintain skill

[10] https://www.sdgfund.org/mdgs-sdgs

flexibility throughout life. Eliminating age discrimination, promoting gender equality in the world of work and ensuring universal social protection are essential steps to reduce inequalities, increase economic participation and support social well-being in a changing demographic context.

Sustainable urbanization

National urban strategies also represent an effective tool for coordinating the opportunities offered by urbanization and for ensuring balanced territorial development. The use of LED bulbs or, where possible, solar-charged ones in public lighting, or the installation of solar panels, also to serve the energy consumption of offices, is becoming standard practice in many cities [11]. To achieve the best results, it is essential that administrations integrate urbanization into their national development plans and economic strategies, focusing on sectors that can benefit from this process and on investments to improve the efficiency of cities. Furthermore, economic planning that takes into account territorial specificities favors the creation of a network of diversified and specialized cities that play complementary economic roles. These urban centers are supported by infrastructure investments that promote urban connectivity and link urban and rural areas. In parallel, the adoption of policies aimed at influencing consumer behavior represents an opportunity for urban authorities to significantly reduce waste and promote consumption patterns conducive to circularity (https://www.sdgfund.org). Possible actions include programs dedicated to the valorization of organic materials, including those from wastewater and food residues, in order to generate income through the production of energy and compost. Furthermore, in an urban context it is possible to adopt a policy to raise awareness of the issue which opens up incentives for the collection, recycling and reuse of used consumer goods to encourage sustainable and responsible development.

Digital technologies

Digital technologies have the undeniable advantage of reducing distances, bringing people closer together and allowing savings on transport costs but, at the same time, they are responsible for pollution.

[11] https://www.sdgfund.org/mdgs-sdgs

On the one hand it is essential to adopt policies that favor the creation of an inclusive digital economy and society, addressing digital inequalities, on the other hand it is necessary to monitor their impacts.

Building effective innovation systems involves developing expertise and collaborations among key stakeholders, strengthening regulatory and policy frameworks, building governance institutions and systems, supporting entrepreneurial ecosystems, and facilitating access to finance and human capital.

Funding policies should cover different aspects of innovation, including research, product design and development, as well as the adoption of new technologies, technology extension services and training. In terms of containing digital pollution, measures are being taken in various ways, *first of all* by trying to monitor the enormous consumption of electricity (highly polluting) linked to the widespread use of blockchains, the platforms in which it is possible to carry out online negotiations paying them with cryptocurrency.

The relationship between blockchain and pollution is complex and depends on several factors. Blockchain technology offers numerous environmental benefits in terms of transparency, security and decentralization, applicable to a wide range of industries. For example, blockchain can be used to track the provenance and journey of sustainable products, to incentivize *eco-friendly practices* through token-based reward systems, or to create immutable ledgers for managing environmental data. However, the intensive use of energy associated with the operations required to operate the system (particularly those that use the Proof of Work (PoW) consensus mechanism, such as Bitcoin) makes such a tool highly impactful. Since PoW requires solving complex mathematical calculations, it consumes huge amounts of electricity to power the computers participating in the blockchain network which can lead to increased carbon emissions and contribute to environmental pollution, especially if most of the the energy used comes from non-renewable sources such as coal. However, many initiatives are trying to address this problem such as projects developing alternative consensus protocols that require less energy, such as Proof of Stake (PoS) or Proof of Authority (PoA). Furthermore, many initiatives can be observed to develop solutions that integrate blockchain with renewable energy sources or that exploit the waste heat generated by mining activities for useful purposes. In short, while there are legitimate concerns about the environmental impact of blockchain, there is no shortage of opportunities to mitigate this impact and use the technology to promote environmental sustainability.

1.2 From sustainability to ESG commitments: historical origins

Although sustainability involves many actors (individuals, institutions, politics, businesses and any other subject involved), production activities are the most implicated due to the extent of their impacts. In 1994, John Elkington introduced a revolutionary concept to the landscape of business practices: the “Triple Bottom Line”[12]. At a time when attention to social and environmental issues was gradually increasing in the global economy, Elkington highlighted the need for companies to broaden their vision so as not to limit themselves to evaluating only the conditions to maximize profits by taking into account also production implications. The Triple Bottom Line proposes a new paradigm for evaluating corporate performance that goes beyond traditional financial indicators and adds the social and environmental dimension. The new approach invites companies to consider the impact on society and the environment in their assessments, while pursuing a logic of profitability. According to Elkington, adopting a broader, more holistic perspective is key to making a *business* sustainable in the long term. In other words, he believed that integrating social and environmental dimensions into the evaluation of corporate economic performance requires considering, in addition to profit, also the needs of people and the planet (ELKINGTON J., 2013). In this way, Triple Bottom Line presents itself as a catalyst for positive changes in the way companies operate and interact with the world around them. The European Commission has defined the “triple approach” as the “view that the overall performance of a company should be measured by its combined contribution to prosperity, environmental quality and social capital”[13].

Sustainability, therefore, no longer refers only to environmental impact but is also evaluated through three fundamental perspectives: economic, social and environmental. The economic perspective refers to the company's ability to generate wealth and guarantee its survival and growth over time, while the social perspective concerns the company's responsibility towards all stakeholders, both internal and external to the organization and, finally, the environmental one, focuses on maintaining the ecological balance and the impact the company has on the environment. These three aspects are commonly summarized through the acronym ESG (Environmental, Social, Governance), now commonly known as the commitment undertaken by responsible companies towards the community. While in the definitions of the Triple Bottom Line and the three-pronged approach the environmental and social dynamics seem to overlap, in the ESG definition the economic aspect is broadened through the introduction of

[12] Elkington J., *Enter the triple bottom line. The triple bottom line: Does it all add up* ?. Routledge, 2013. 1-16.
[13] https://www.europarl.europa.eu/meetdocs/committees/deve/20020122/com(2001)366_it.pdf

the concept of Governance. This element is fundamental to indicate the type of organization assumed by companies and the responsibilities assigned in order to prevent social and environmental impacts. In this way, the ESG approach offers a complete and integrated vision of corporate sustainability, taking into account not only financial returns, but also social, environmental and governance impacts[14].

Today, sustainability has transformed, taking on greater versatility, acquiring environmental, social and governance concepts. The environmental aspect focuses on a company's practices and policies regarding the environment and includes considerations such as the impact on climate change, the sustainable use of natural resources, the management of waste and polluting emissions (HTTPS://WWW.ESG360.IT).

The social aspect concerns a company's relationships with the people and communities involved in its operations and includes issues such as employee relations management, workplace safety, diversity and inclusion, as well as social impact of company operations on local communities. Finally, Governance refers to a company's management practices and decision-making structures, involving transparency of financial information, independence of the board of directors, corporate ethics and management of conflicts of interest. The integration of ESG criteria into financial analysis and investment decisions has become increasingly widespread in recent years, as more and more investors recognize the importance of evaluating not only a company's financial performance, but also its environmental impact, social and governance (HTTPS://WWW.ESG360.IT).

1.3 CSR: what is corporate social responsibility?

Companies' attention to ESG issues has required specific organization in this regard which has seen them take on social responsibility. Corporate Social Responsibility (CSR) has a rich history of definitions and contributions in which ethical and responsible corporate behavior is assumed as a stable commitment. One of the first texts on the topic dates back to the 1950s when Howard R. Bowen, with his book "Social Responsibility of Businessmen", laid the conceptual foundations for understanding the role of companies in society. Bowen defined CSR as "*the set of policies, decisions and actions that align a company's operations with the goals and values of society*", a concept that has maintained its relevance over time. Later, in

[14]https://www.esg360.it/social-responsibility/corporate-social-responsibility-cose-e-come-rende-le-imprese-sostenibili/

the 1970s, Keith Davis introduced the concept of the "Iron Law of Responsibility", emphasizing that a company cannot be considered socially responsible if it only meets minimum legal requirements. This concept highlights the importance of a commitment that goes beyond current regulations, a moral imperative that every company should adopt to maintain society's trust in the long term. These are significant innovations given that they give businesses a vocation never seen before. The search for profit has, in fact, always characterized business activities and since the times of the classical economists, who lived in the 9th century, the theories set out adopted the dogmatic assumption of 'rationality' and logic which, in their opinion, in production field would have led, naturally, to the achievement of profit maximization, the sole aim of producers, and to the 'maximization of personal benefit', the sole aspiration of consumers.

According to these economists, consumers, in the act of satisfying their own needs, acted on the basis of the assumptions of *Homo oeconomicus*, a finalized, selfish being, concentrated on his own interests and willing to sacrifice the minimum, to receive the maximum profit.

As has been said, a first rethinking that opened up the reinterpretation of the dynamics described came[15]in the 1950s, when economic theories of a 'collaborative' nature began to spread, reaching new conclusions, namely that 'cooperation' and not 'selfishness, was the best strategy, thus introducing embryonic '*win-win*'[16] type theorems. Later, in the 1960s, by reworking these theories, the idea of a *social economy* which represents a new perspective in which, alongside quantitative assessments, qualitative ones began to be taken into consideration. These theoretical strands have provided themselves with different reference models compared to traditional economics, based on alternative principles compared to the rules of the market economy, inspired solely by individualistic and opportunistic logic (MARIOTTI S. & PISCITELLO L., 2006),. Thus, management theories began to be formulated that considered new interests at stake, introducing, for example, concepts such as 'negative externalities', consisting of reductive effects on social well-being caused by activities that did not consider the impacts caused. The *Pigouvian* tax was identified as a possible solution to the problem and consisted in applying a tax to the person responsible, of an amount equal to the economic loss incurred[17]. Subsequently, Ronald H. Coase published the article *The Problem of Social Cost* which earned him the Nobel Prize for Economics in 1991, in

[15] By economists such as OH Bowen, J. Von Newmann, O. Morgenstern, A. Tucker, J.Nash.

[16] Mariotti S. & Piscitello L. (2006), *Multinazionali, innovazione e strategie per la competitività*, Prismi. Bologna: Il Mulino, p. 89.

[17] Arthur Cecil Pigou (1877-1959) was a prominent English economist. He is known for his studies on the economics of well-being, of which he is considered one of the greatest exponents.

which he demonstrated the possibility of achieving Pareto efficiency through the market. The latter called into question a new concept, that of "social well-being", superior to individual well-being. On this basis, the Kyōto Protocol was signed years later[18].

The new cultural conquests also led to changes in the concept of business, so much so that, in 1970, M. Friedman defined it: "*economic entity oriented towards the alignment of public and private interests through the satisfaction of the requests of shareholders and all stakeholders, primary and secondary, who are involved directly or indirectly in the business activity*"[19]. Involved in the activity of a company are no longer just consumers and workers but all those who have an interest in its activity (yes concerns those who suffer its operational consequences)[20]. In the 1970s, the spread of activities with a social purpose slowly spread, in mass culture, the idea that it was necessary to defend that silent demand, i.e. the social demands that do not translate into an explicit request to the market. Citizens began to feel the need to see environmental aspects protected and to be able to express their indignation towards any abuse, going so far as to boycott companies that did not respect the protection of animals (the so-called *animal welfare*), the environment and human rights, working conditions and everything that revolved around *fair trade issues*[21].

As part of the social transformations described, companies began to understand that their public image (*brand image*) should be taken care of, with a view to being perceived as attentive to 'social issues'. It was necessary to spread a profile of oneself that combined the mere aim of profit with the existence of a sensitivity to socio-environmental issues. From a dogmatic point of view, although historically *Corporation Social Responsibility* has only spread since the 70s of the last century, it had already been addressed since the 30s and 40s of the last century, thanks to the contributions of scholars Chester J Barnard (1938), John M. Clark (1939) and Theodore Kreps (1940)[22].

Precisely the development of these studies had led to the definition of CSR as:

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[18]The Kyoto Protocol is one of the most important international environmental treaties, focused on global warming. The protocol was published on 11 December 1997 in the Japanese city of Kyoto by more than 180 countries who had gathered to create the Conference of the Parties "COP3" to the UN Framework Convention on Climate Change.

[19] Donaldson and Preston, (1995); Freeman, 1984; Jensen, (2001).

[20] In the *social economy* the protagonist subject is the 'third sector' (as it is included in the State sector and in the market) also defined as "civil society organisation", or, "private-social" or, again, "non-profit sector". In Italy, this sector underwent a decisive revaluation following the *welfare reform* (which took place in the 1980s), imposing itself as a consequence of the failure of the State (which consisted in not being able to achieve many institutional goals except at excessive costs).

[21] The term *fair trade* corresponds to fair trade.

[22] Clark C., Rosenzweig W., Long D., Olsen S. (2019), *Double bottom line project report: Assessing social impact in double bottom line ventures*, EDR

the instrument that " *encloses economic, legal, ethical and discretionary expectations that society has towards the organization in a certain period of time* " or as the set of " *actions undertaken by the company intended for the creation of social goods that they go beyond the direct interests of the company and what is required by law"*[23].Although the birth of the instrument in question is often traced back to those years, only with the development and diffusion of environmental culture did companies begin to include the ethical obligations of responding to the 'negative externalities' created by their *modus operandi*.

1.3.1 CSR developments

In the 90s, the Italian legislator highlighted the definitive acceptance of the requests in question, so much so that in Legislative Decree 460/97, on the subject of regulation of non-profit organisations, it saw, for the first time, the introduction of an interesting news on the topic of CSR (MARIOTTI S. & PISCITELLO L., 2006). The law decree established the need to create a separate reporting of the expenses incurred in which the funds raised were required to be communicated publicly, thus introducing the principle of monitoring the origin of the proceeds and their actual subsequent use. In this way, it was made possible for everyone to know and evaluate whether the company's choices were respecting principles of general well-being or only repaying its supporters. The meaning of CSR has been enriched over the years, so much so that in 2001 the EU defined it as a voluntary action, or as: "*voluntary integration of the social and ecological concerns of companies in their commercial operations and in their relationships with stakeholders"*[24]. Subsequently, the European Commission offered a new notion of CSR, qualifying it as[25]:"*The responsibility of enterprises for their impacts on society*"[26]. The new approach appears much more inclusive than the previous ones as it overcomes the limit of attention to the interests of *stakeholders,* requiring business activities to adhere to the general principles promoted by international organizations such as those of the OECD and the UN[27]. Thus, CSR came to be seen as a cultural innovation of the economy, so much so that, in 2004, a specific agency was created, based in London, responsible for

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[23]Carroll BA, *Three-Dimensional Conceptual Model Of Corporate Social Perform*. Academy of Management Review, n.4, 1979.
[24] Green Paper of the European Commission of 18 July 2001.
[25] Communication of 25 October 2011 (n. 681).
[26] Quintas C. (2011), *Comunicazione della Commissione al Parlamento Europeo, al Consiglio, al Comitato economico e sociale europeo e al Comitato delle Regioni*. Disponibile in: https://www.europarl.europa.eu/meetdocs/2009_2014/documents/com/com_com (2011)0681_/com_com(2011) 0681it.pdf
[27] For example, agencies like the ILO.

evaluating the degree of respect for social prerogatives. An important role in the affirmation of CSR consisted in the acquisition by the public of a greater awareness of the effects of the impacts caused by economic activities (CLARK C., ROSENZWEIG W., LONG D., OLSEN S., 2019). CSR has, in fact, imposed a reflection on the dimension of now familiar concepts, such as that of 'sustainable economic development' which is achieved with the active interaction of companies with the legislation of various countries, in different areas: health and safety; environmental protection; ethics and corporate governance; human rights; human resources management; social involvement, as well as respect for local communities; philanthropic initiatives, *customer satisfaction* and respect for the principles of fair competition, anti-corruption policies; transparency and budget; relationships of trust with its suppliers (CLARK C., ROSENZWEIG W., LONG D., OLSEN S., 2019). .

An important contribution to the definition of the content of the term CSR is also given by the *World Business Council for Sustainable Development*, which recommends that companies create a flexible 'system' capable of working for the social good[28]. By accepting the principles of CSR, companies must necessarily equip themselves with a corporate organization capable of accompanying cultural change by investing in professional training, as well as in healthcare activities, in the protection and contextual valorization of artistic heritage and in the relaunch of territory. From this it also derives from the greater attention paid by national legislators to the choice of specific tools to be used to pursue the objectives described. With the approval of Law 280/15, in Italy the concept of 'social impact measurement' has taken on a further connotation for companies which, today, conceive it as a stable and lasting element of their organisation (PROPERSI A., 2018). Finally, an aspect that characterized the path described was the development of greater awareness among consumers, who are increasingly strict judges of the ways in which business activities are carried out. In the work "*A Three-Dimensional Conceptual Model Of Corporate Social Perform*" AB Carroll (1979) defines CSR as the set of four forms of responsibility, that is, the one that refers to r. economic, legal, ethical and philanthropic[29].

[28] Propersi A (2018), *Gli enti non profit: Aggiornato con la riforma del terzo settore* (2nd ed.). Milan, Giuffrè
[29] Carroll BA, *Three-Dimensional Conceptual Model Of Corporate Social Perform*, cit., p.56.

Fig.2: Carroll's CSR

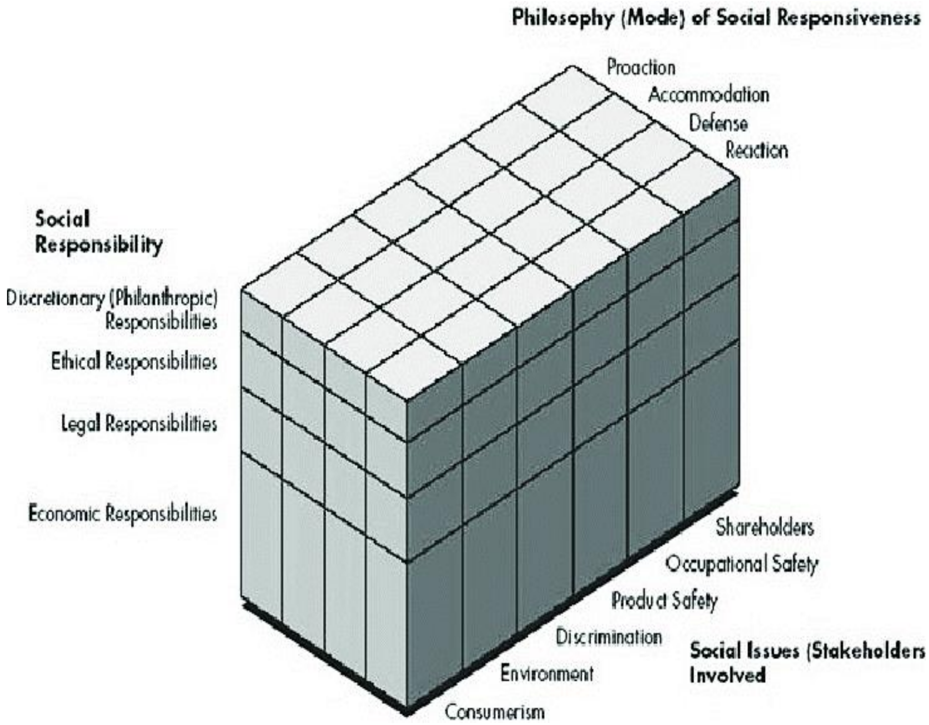
Source: Carroll B., *A Three-Dimensional Conceptual Model of Corporate Social Perform,* Academy of Management Review, n.4, 1979

The 'Economic Responsibilities' consist of the set of obligations linked to the production of goods and services by the company and relate to their technical requirements. 'Legal Responsibility' concerns the set of assumptions that the legislator has imposed on companies: the legal rules represent the perimeter within which the company is authorized to operate. The third level, 'Ethical Responsibility', concerns those activities or good practices which, even if not regulated, civil society expects to be respected (CARROLL B.A., 1979).

At the top of the pyramid is 'Philanthropic Responsibility', purely voluntary, which consists in organizing activities based on mere altruism, i.e. without any form of return.

To respond to this responsibility it is necessary to invest in social roles and recognize their strong strategic value. Without forgetting the economic purpose, which is essential for the survival of the company, Carroll identifies further purposes that serve to implement the social and economic commitment of companies. Among these purposes, Carrol introduces *Corporate Social Performance* (CSP), a function that includes *Corporate Social Responsibility* (CSRS1) in its four dimensions mentioned (economic, legal, ethical and philanthropic i.e. discretionary) and *Corporate Social Responsiveness* (CSR2) which is identified in terms of sensitivity towards the social sphere. Only after having established the mentioned functions, is it possible to identify the *Social Issues,* i.e. the objectives or areas of interest that the company intends to address. The dimensions in which to operate become, in this way, aimed at satisfying every type of request, both corporate and social. The following figure highlights the forms of commitment assumed by the company that joins the CSP, as well as the specific actions and interests involved (Carroll BA, 1979).

Fig.3: The dimensions of the CSP



Source: Carroll B., *A Three-Dimensional Conceptual Model of Corporate Social Perform*, Academy of Management Review, n.4, 1979

Unlike CSR, CSP focuses on the process and methods used by companies to achieve their objectives by combining their interests with those of their *stakeholders*. Carroll analyzed and defined CSR1 in terms of principles and categories, while CSR2 in terms of strategies as well as processes. By developing Carroll's theory, the economic literature has further developed the concept of CSP, distinguishing three very specific phases. They characterize the company's behavior in response to social needs. According to Sethi, the three phase-levels are: Social *Obligation* , i.e. the *obligations that a company has based on the constraints that the legislator imposes* ; l Social *Responsibility* , which inheres *in constraints that go beyond society and, in this sense, provide respect such as, for example, those that refer to Ethical Responsibility* and *Social Responsiveness* which *shows the company's ability to anticipate and prevent different expected social needs* [30].

[30] Sethi S.P. (1975), *Dimensions of Corporate Social Performance: An Analytical Framework*. California Management Review, 17, 1975, p. 33, at: https://doi.org/10.2307/41162149

In the model described by Wartick and Cochran, the Authors identify another dimension, *Social Issue Management*, a social function that deals with the minimization of controversies that could arise, seeking solutions that also take into account the changes in the environment surrounding the business[31].

The CSP model devised by Wartick and Cochran involves “principles”, “processes” and “policies”. In practice, the responsibility assumed by a company towards society (of an economic, legal, ethical and discretionary nature) ends up involving all operational aspects of the company. The *principles* represent the fixed points of business activity, and the organization must be based on them; the *processes*, on the other hand, concern the operational aspects which, transversally, involve the company functions. Finally, *policies* concern the identification and analysis of problems and the response to suggest for their solution. Donna J. Wood, in 1991, also made some criticisms of Carrol's model, believing it to lack some characteristics. Corporate *Social Responsiveness*, in his opinion, could not be traced back to a single process but rather consisted of a combination of processes[32]. Furthermore, he considered that the *performance social capacity* could exist even in the absence of the preparation of deliberate policies, arising from the synergies that govern each process. Finally, he believed that the model proposed by Carrol, while considering principles, processes and policies, had the limitation of not having foreseen the component of the specific actions that a company should have carried out and the component relating to the evaluation of the results achieved (WOOD DJ, 1979).

The configuration of a business organization, according to Wood, must be enriched with new categories. With these premises, the *Principles* of *Corporate Social Responsibility* were divided into the 'institutional' level (economic, legal, ethical, discretionary), the 'organisational' level, which consists in dealing with public responsibility and the 'individual' level which concerns discretion and is attributable to the function of *managers*[33].

Corporate *Social Responsiveness* was reclassified by adding new objectives, such as 'environmental assessment', 'stakeholder management' and 'issue management' (SCIARELLI M., 2012).

In addition to those mentioned, Wood introduced a further category, the *Outcomes of Corporate Behavior*, which concerns the policies described in the Wartick and Cochran model,

[31] Ibidem
[32] Wood DJ, *Corporate Social Performance Revisited.* Academy of Management Review, 1979, in: https://doi.org/10.5465/amr.1991.4279616
[33] Sciarelli M. (2012), *Performance sociale d'impresa,* CEDAM, p.90.

enriching them with the evaluation of the company's results or *performance* . This category concerns: *social impacts; social programs and social policies*.

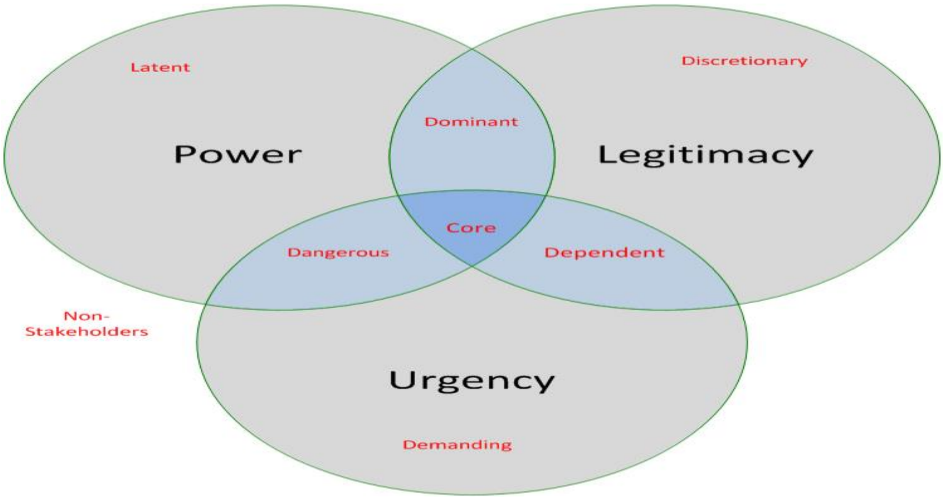
1.3.2 The importance of stakeholders

Over time, the concept of CSR has been integrated with that of *stakeholder.* The term *Stakeholder* (FREEMAN, 1984) means any group or individual who influences or is influenced by the achievement of an organization's goals[34]. In the literature, primary and secondary *stakeholders* have often been talked about. *Primary stakeholders* represent an essential group for the survival of the company referring to suppliers, customers, workers, shareholders, investors etc.; the *secondary ones* , on the other hand, are those who, although influencing or being influenced by the company's activity, do so only because they are *casually* involved. In this sense, they, unlike the former, are not essential to the continuation of the activity[35]. *Stakeholder* theory deals with delineating the specific stakeholders of a company (the so-called normative theory of *stakeholder identification*) and examines the conditions to which they are subjected (the descriptive theory of *stakeholders*). The theory was published in the early 1990s by Freeman and Evan (1988), two American scholars who developed and published a 'normative theory' according to which those who have legitimate claims against the company must be considered *stakeholders.* Subsequent studies have extended the initial content of the theory by believing that even 'potential' ones should be considered part of the category of *stakeholders,* being of subjects who see their involvement only postponed[36]. Over the years, *stakeholder* theory has evolved from a pure "theory of the firm" to a research tradition that has addressed a complex phenomenon, coming to distinguish between *voluntary stakeholders and involuntary stakeholders,* identifying in the former, that category of subjects who, having invested in human or financial capital, assume a form of direct risk and, in the second, those who bear a risk 'due to' the business activity[37]. The assumption of this new perspective lies in having acquired the concept of 'risk', a variable that typifies the meaning of business, as an essential element of the qualification of a *stakeholder.*

[34] Freeman REE & McVea, J., A *Stakeholder Approach to Strategic Management.* SSRN Electronic Journal. Advance publication, 2001, at: https://doi.org/10.2139/ssrn.263511
[35] Ibidem
[36] Clarkson, M.E., *A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance.* Academy of Management Review, 1995, in: https://doi.org/10.5465/amr.1995.9503271994
[37] Ibidem

Beyond classifications, it is the importance that *stakeholders* have in company policies that represents the true core of the theory (CLARKSON, M.E., 1995).
In this regard, the theory developed by Mitchell et al. deserves attention. (1997) who proposes a *framework from which the "stakeholder salience"* can be drawn, which allows the areas of influence in which each stakeholder is located to emerge. In the following figure, this representation.

Fig.4: Stakeholder salience



Source: Mitchell et al., 1997 in: Morri L. *The tools of ethics, the ethics of tools and social responsibility,* Sociology of work n. 106-107, Franco Angeli, 2007

To identify the relevance of individual *stakeholders*, the *framework* uses three attributes: 'power', 'legitimacy' and 'urgency'[38]. The first attribute, 'power *',* refers to the ability of a subject (or a group of subjects) to make their interests prevail in their relationships with a company; 'legitimacy' is an attribute by which the interests of a category of *stakeholders* are considered relevant and worthy of protection; the attribute of *urgency* refers to the speed with which the company responds to the requests of the various interested parties (Mitchell et al., 1997). Within each category there are, according to the *framework*, various types of *stakeholders*, who differ from each other by the role played within the relationships with the company. The *sleepers* have "power" as a relevant attribute, they could impose their will, however the lack of legitimacy does not allow this. The *discretionary* are those who hold legitimacy but do not possess power, nor any expectations that can be considered urgent; finally, the *challenging ones are the stakeholders* whose requests present the connotation of

[38] Mitchell RK, Agle BR & Wood DJ, *Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts.* Academy of Management Review, 1997, in: https://doi.org/10.2307/259247

urgency, who are neither dangerous nor legitimate but nevertheless want attention. Stakeholders who possess at least two attributes are said to have "expectations", and this means that the company pays greater attention to them. Within them, three types of *stakeholders can be distinguished* (MITCHELL ET AL., 1997) : *dominant , who appear powerful and have legitimacy and the project manager* takes care of their expectations considering the certainty of their influence on the project; *dangerous* : they show power and urgency but have no legitimacy. Based on this, they could resort to coercion and/or violence in order to assert their claims; *employees*: they are those who depend on the other *stakeholders* of the project, they do not hold power but legitimate and urgent expectations. Finally, the "*definitives*" are the *stakeholders* holding all three attributes[39]. This *framework* aims to provide the company with suitable support to allow it to make its own choices in the awareness of producing distinct effects capable of impacting different areas. The development and diffusion of theories on *stakeholders* have required the introduction of new company protocols, increasingly detailed, no longer inspired by the sole purpose of creating profit, but rather by the acquisition of a new orientation, aimed at promoting well-being through the satisfaction of all the "stakeholders"[40]. In addition to the purpose, the management of the company itself has enriched its meaning, to the point of "acting as a means for the coordination of the interests of the *stakeholders*"[41], which has led to assumption of burdens that went beyond the mere obligations imposed by law. The ' *stakeholder theory* ' analyzes and describes the company as an activity aimed at managing the set of interests relating to *stakeholders* which sometimes compete and sometimes coincide with those of the company. This has led to the adoption of more responsible behavior while maintaining the commitment to ensure economic advantages for the company[42]. *Stakeholder* theory has proven to be a fundamental support for CSR scholars intent on identifying the 'social obligations of companies', establishing itself as a concept separate from the latter, but partly overlapping underlining the importance of evaluating socio-environmental interests when carrying out business practices[43]. The two concepts diverge since the ' *stakeholder theory'* considers CSR only one of the various forms

[39] Any *stakeholder* can become "ultimate". For this to happen he must acquire the attribute he does not possess. The most recurrent case occurs when a *stakeholder* of type dominant, which has power and legitimacy, makes an urgent claim on the project. In this case, the *project manager* must prioritize his request making him a definitive stakeholder.
[40] Clarkson M. E, *A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance,* cit.
[41] Freeman R.E., & Reed, D.L. (1983), *Stockholders and Stakeholders: A New Perspective on Corporate Governance,* Edt, pp. 88–106.
[42] From a normative point of view, stakeholder theory takes into account the interests of all stakeholders who are legitimate in themselves, i.e. holders of a value not linked to the achievement of a specific purpose.
[43] Freeman R.E. and Dmytriyev S., *Corporate Social Responsibility and Stakeholder Theory: Learning From Each Other: Emerging Issues in Management* , 2017, in: https://symphonya.unicusano.it/index

of corporate responsibility, while the latter considers orientation towards collective needs as a priority[44]. Finally, it is worth remembering the evolution of the theory, recorded in 2011, when Porter and Kramer came to the conclusion that companies could create shared value by adopting policies and practices that simultaneously strengthened competitiveness and responded to the needs of the communities in which they operated[45]. Of an important step forward towards acquisitions that are now increasingly consolidated but were once considered irreconcilable. The theory presupposes new business models aimed at adopting measures whose objectives should satisfy corporate and social needs. Addressing the problem of the lack of water in some areas, of health, etc., can generate a profit, turning it into a business. According to scholars, it is necessary to find a way to address these aspects by making them profitable through the search for shared value in the value chain but also in the institutions present in the communities in which the activity takes place. In this way, many organizations would see new markets open up, hidden needs not yet satisfied, resorting to new ways of doing business, thus improving the management of the impact on the environment and the community (PORTER M., K.M., 2010).

An interesting case of Created Shared value (CSV) is offered by the pharmaceutical industry which has begun to address rural communities in India, which have always been ignored, meeting a demand that was not openly expressed and discovering a market made up of one billion people (since India lacked a robust healthcare system, this required an entirely new value chain). Unlike CSR which involves investing company resources in worthwhile actions, such as recycling waste, making donations to social causes, and so on, CSV refers to the company's "core business", requiring it to be managed in a innovative, reinventing business models based on the necessary adaptations and aiming, in any case, to create profit for shareholders (PORTER M., K.M., 2010).

[44] Clark C., Rosenzweig W., Long D., Olsen S., *Double bottom line project report: Assessing social impact in double bottom line ventures*.EDR, 2019, p.45.

[45] Porter M., K.M. (2010), *THE BIG IDEA Creating Shared Value How to reinvent capitalism - and unleash a wave of innovation and growth. Economics Review,* (Vol.I, II.), in: https://www.communitylivingbc.ca/wp-content/uploads/2018/05/Creating-Shared-Value.pdf

1.4 Sustainability and principles of business economics

What has been described up to this point has influenced some consolidated notions in the corporate field, such as those relating to its *cost-effectiveness*, or the ability to endure and maximize the efficiency of the resources used[46].

This is a concept which requires that the management of companies be coordinated in such a way as to jointly guarantee *the optimization of* company *performance* and compliance with *financial equilibrium conditions*. Regarding the first point, the optimization of *performance, it is achieved by* pursuing two other principles of corporate importance: *effectiveness* and *efficiency.* The term *effectiveness* refers to the company's ability to pursue institutional goals, therefore also to persist over time[47]. Its measurement is achieved through the ratio that places the result obtained as the numerator and the objective that we achieve as the denominator. He had imposed himself. Efficiency represents the company's ability to be able to use resources in a rational way and requires identifying the right relationship between resources used and results achieved.

An efficient company conveniently determines the operational combinations, implying the use of the required resources, achieving the best result through the use of the least amount of *inputs*. Efficiency can be of *the* "Internal" type when it refers to the relationship between production obtained and the factor used and of "External" type if it indicates the ability to compete on the market also in relation to relationships with suppliers and customers (AIROLDI G., BRUNETTI G., CODA V., 2020).

An efficient company pursues the condition of optimal balance by identifying the combinations of use of resources that allows it to last over time and, at the same time, to maintain a situation of relative autonomy.

In configuring its equilibrium condition, the company takes steps to affirm both its *economic meaning* (as the difference between consumption and restoration of the wealth possessed) and *patrimonial meaning* (relating to the ability to accumulate and maintain patrimonial wealth) (AIROLDI G., BRUNETTI G., CODA V., 2020).

The balancing of sources between financing and uses (achievable in the long term) refers, however, to the need for *financial balance* while the ability to meet payments (relating to short-term debts) is measured by *monetary balance* and is achieved when total revenues are

[46] Masini C., *La struttura dell'impresa*, Milano, Giuffrè, p. 90.
[47] Airoldi G., Brunetti G., Coda V., *Corso di economia aziendale,* Bologna: Il Mulino, 2020, p.34.

greater than costs[48]. With the integration of the new assumptions in the CSR, the economic principles described, continuing to represent management references, have been enriched in meaning, also being referred to non-financial objectives, such as environmental and social ones for which, to evaluate its efficiency, a company that achieves high production, making optimal use of resources, must also consider the impacts created. In other words, if in the past the measurements of the results achieved took place considering only the quantitative aspects, with CSR it is also necessary to evaluate the externalities produced, both positive and negative ones.

In this sense, aspects such as pollution, in its various forms, cannot be ignored, constituting figurative costs, just as any benefits produced in the territory must be understood as results to be added to those achieved. In this sense, CSR can be considered as a viaticum that has introduced new concepts into companies such as to require the reformulation of the contents of principles traditionally anchored to only economic-financial assumptions, transforming them into indices suitable for representing business activities in their dimension global: financial and non-financial.

2. Sustainable finance

The application of the notion of sustainable development to financial activity is called "sustainable finance". The notion spread in the 90s of the last century, with the aim of guaranteeing a more rational use of resources through investment in activities that were characterized by being committed to sustainable development, using production processes that allowed the creation of added value. Also, in the social and environmental sense. The subjects who are involved in sustainable finance are [49]: institutional investors, i.e. all the entities which, by corporate purpose, are responsible for allocating the capital raised to the purchase of financial instruments, banks; insurance companies; companies that deal with asset management (SGR); professionally practicing financial operators who operate on their own account or with a management mandate; collective investment undertakings, such as, for example, investment funds or pension funds (UCI); territorial public bodies; holding

[48]Airoldi G., Brunetti G., Coda V., *Corso di economia aziendale,* cit., p. 98.
[49] Mohr LA, Webb DJ & Harris K.E. (2001), *Do Consumers Expect Companies to be Socially Responsible? The Impact of Corporate Social Responsibility on Buying Behavior,* Journal of Consumer Affairs, https://doi.org/10.1111/j.1745-6606.2001.tb00102.x

companies that carry out financial activities (only if they have their own structure and activity, which are distinct from those of their shareholders); foundations[50].
The principles of "sustainable finance" refer to the need to direct capital towards activities which, in the pursuit of generating economic surplus value, do not neglect environmental and social aspects, limiting negative impacts and supporting positive ones. "Sustainable finance" falls within the broader sphere of "ethical finance", i.e. that entrepreneurial branch that makes economic choices not based solely on the creation of profit. "Ethical finance", however, differs from "sustainable" finance by attracting in its definition investment choices motivated by religious, ideological and political principles, in which sustainability commitments are conceived as marginal with respect to the objectives pursued (MOHR LA, WEBB DJ & HARRIS K.E., 2001).
The Consolidated Italian Banking Act (TUB) regulates, in article 111-bis, the discipline on "Ethical and sustainable finance operators", describing responsible investments as those which constitute the practice according to which, to the traditional objectives of financial management [51] assessments of environmental, social or governance impacts (ESG-Environmental, Social, Governance) are added [52].
The TUB reserves tax benefits for the results deriving from the investments described.
Finance becomes "responsible" if it does not renounce profit but pursues it over a longer horizon, avoiding sacrificing socially shared value data, such as social and environmental ones.

2.1 The historical development of sustainable finance

Although the attention of the institutions to the topics described is relatively recent, the interest in the aspects it recalls can already be found in the 18th century, when Protestantism denounced the investments of the capitalists of the time in the slave trade or in activities

[50] Ibidem
[51]That is, the optimization of the risk/return ratio in a given time horizon
[52]TUB (art.111 bis): 1." *Banks that conform their activities to the following principles are ethical and sustainable finance banking operators: a) evaluate the loans granted to legal entities according to internationally recognized ethical rating standards, with particular attention the social and environmental impact; b) give public evidence, at least annually, also via the web, of the financing provided pursuant to letter a), taking into account the current regulations protecting the confidentiality of personal data; c) donate at least 20 percent of their credit portfolio to non-profit organizations or social enterprises with legal personality, as defined by current legislation; d) do not distribute profits and reinvest them in their business; e) adopt a governance system and an organizational model with a strong democratic and participatory orientation, characterized by widespread shareholder ownership; f) adopt remuneration policies aimed at containing as much as possible the difference between the highest remuneration and the average remuneration of the bank, the ratio of which in any case cannot exceed the value of 5* ". Consolidated Banking Act, Title V, 2022).

related to production and to the trade of goods capable of producing social negative value, such as weapons, tobacco and alcohol. Despite this interest, we had to wait until the 1960s to witness a release of the notion from religious assumptions, which occurred thanks to the spread of protest movements and proposals regarding civil rights in those years.

Through these social pressures, the conditions were laid for the birth of a movement which, in the future, would lead to a change in the market, through the creation of a demand for innovative products and services. The maximum expression of these social changes occurred during the Vietnam War, when young students began to criticize the investment made by some universities and numerous pension funds in support of the war[53].

In this climate, at the end of the 1960s we witnessed the birth of the first ethical mutual fund, the Pioneer Fund, which was responsible for managing the investments of religious institutions which had included the tobacco sector, the alcohol and gambling[54].

Subsequently, in 1974, the Reverend Leon Sullivan started a new movement of opinion which, among other things, dealt with the organization of the shareholding of some multinationals. Sullivan urged the dissemination of some behavioral principles, according to which US companies, which managed, on their own or through their subsidiaries, interests in South Africa, should extend to workers of South African nationality the same treatments reserved for those of the mother country [55].

The movement achieved several victories "so much so that the active shareholder approach was consolidated as a tool for civic promotion.

In the 1980s, the phenomenon also spread to Europe, starting in the United Kingdom, and consolidating ten years later, in the 1990s, across the entire continent. In Italy, in 1997 the savings management company of the Sanpaolo IMI group created, for the first time in the country, "ethical line" investments which would later be imitated by other investment companies [56]. In 2007, the bank established "Banca Prossima", the first ethical bank, specialized in "non-profit" financing (LIACE G., 2019).

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[53] In these protests it was argued that the use of money was a "non-neutral" and therefore political act, in relation to the effects it produced.

[54] Liace G., *L'investitore tra deficit informativi e bias comportamentali,* Bank Enterprise Company. (3), 2019, pp. 445–462, in: https://doi.org/10.1435/92597

[55] Ibidem

[56] Ibidem

2.2 The contents of sustainable finance

In general, therefore, "responsible" financial products focus on projects that present added value for man, documenting the advantages in favor of culture and/or the environment, generating social and/or environmental surplus value. In theory, any financial product can be profoundly modified by being structured in a socially responsible manner; in fact, it is sufficient that the securities included in the portfolio are selected on the basis of criteria that are not exclusively economic. Commercial banks and investment banks, companies that deal with asset management, brokers and financial consultancy companies, agencies that offer social rating services, insurance companies are, today, the main subjects involved in the management of "financial" products. sustainable" and their methodologies for selecting securities to be included in the portfolios are based on selectivity criteria that exclude those issued by companies that present ESG issues (think of the industries that deal with the production and trade of weapons, of biotechnologies intended for food uses which are considered not adequate to the standards, to the chemical and oil sectors which use technologies that are not compatible from an environmental point of view, to heavy industry, which is always highly polluting, etc.).

In selecting the securities to be included in the portfolios, positive criteria are also adopted, which refer to the choice of activities that maintain "socially responsible behaviour, through the use of ethical codes of conduct. In these cases, we speak of a *best in class approach*, considering that which qualifies the securities issued by these activities among those that can be purchased due to their high environmental or social profile"[57]. In investment decisions, an important role is assigned to *social rating operators* who deal with the continuous and systematic collection of information relating to the environmental and social policies of companies, making it public. Specialist index providers (often called "ethical indices") calculate benchmarks *whose* underlying[58] is based on environmental or social criteria. The "ethical *benchmarks*" are indices of the *performance* of a basket of companies which, in managing their activities, adopt ethical, environmental, or social criteria, together with economic and financial ones (LIACE G., 2019). What has been illustrated highlights the strong relationship between sustainable finance and ESG values, i.e. business objectives that bring benefits of an economic or social nature or that refer to specific governance functions.

[57] Liace G., *L'investitore tra deficit informativi e bias comportamentali*, cit.
[58] The underlying is the financial asset or asset to which an instrument is linked.

Based on the doctrine, from now on the notions that are linked to the theme of sustainability will be used in such a way as to give them a specific meaning.
The term "sustainability" refers to the broad concept of balance between economic development, environmental protection and social responsibility not referring solely to companies; By "CSR" we mean the voluntary initiative that aims to improve the corporate image and social well-being and by "ESG", the specific tool used to evaluate corporate performance on environmental, social and governance criteria.

2.3 ESG and sustainable finance

Environmental*, Social, Governance* refers to the indication of activities related to responsible investment which, in their contents, pay attention to environmental*, social and governance* aspects.
Today, thanks to awareness on the topic, it is possible to observe a notable diffusion of ESG objectives among companies, and their importance is evident in the introduction of support formulas for such initiatives in the National Resistance and Resilience Plans (PNRR). In fact, 191.5 billion euros have been allocated to initiatives linked to aspects of socio-environmental and economic sustainability, of which 59.47 billion for the "Green Revolution and ecological transition"[59]. Today, in many realities, ESG constitutes a commitment towards "sustainable development" through investments aimed at creating added value for the environment, for society and the organization of *corporate governance* of companies in the direction of responsibility towards these issues. Political commitments in the direction of supporting ESG objectives have also progressively strengthened by introducing specific instruments, including *Green Bonds*, which saw their initial diffusion in 2007. These are bonds linked to projects that stand out for their positive impact on the environment. The activities that issue these *bonds* have objectives such as energy efficiency, i.e. the reduction of their use to minimum levels to obtain the desired results, the production of energy from clean sources, the sustainable use of land, etc. Water and waste treatment, control of the emission of pollution sources, the construction of wind farms, the sustainable use of water or eco-compatible construction, represent initiatives typically financed through the issuance of *green bonds*. The development of *green bonds can be explained by the entry into the market of green* bonds by companies

[59] Next generation Italy, *National recovery and resilience plan* , 2021, in: https://www.governo.it/sites/governo.it/files/PNRR_0.pdf

active in emerging countries[60], and by the growing attention to the issue of environmental sustainability by institutions. In particular, the main development banks [61], which are characterized by directing their investments into underdeveloped areas, annually renew their commitment to sustainability by resorting to the issuing of *green bonds.* The fight against climate change is the main objective of the investments of these banks and the projects that pursue it provide financial support through the issuing of these bonds. Regarding the forms of pursuing *green targets,* at the moment there is no certification *standard for the* "green" objectives of a *bond*, but some guidelines, such as those developed by the International Capital Market Association (ICMA). These are principles which provide, *first of all,* that the issuer of a bond is required to clearly indicate the subsequent destination of the proceeds collected and also follows some specific procedures when evaluating and selecting projects. Furthermore, the issuer in question must always guarantee maximum "transparency" in communicating to the public the methods of management of the aforementioned proceeds; finally, *reports are required* for investors who need to know the progress of the projects. In addition to *green bonds*, financial instruments to support ESG objectives are represented by *social bonds and sustainable bonds,* the first, social bonds, are bonds that aim to support initiatives that are characterized by their social importance and allow you to combine, in investment choices, individual economic objectives with broader ones that refer to a general interest for society. *Sustainable bonds*, on the other hand, are securities issued to support activities that pursue financial and sustainability objectives of a social and environmental nature, including the reduction of poverty and the development of sectors including education, healthcare and agriculture and infrastructure development and modernization. Borsa Italiana promotes the definition of information *standards* relating to these instruments. In addition to being part of the *Sustainable Stock Exchanges Initiative,* supported by the UN, which aims to issue securities whose underlying activity is the transition to a low environmental impact economy, Borsa Italiana adheres to the *Climate Bonds Initiative* [62] and is among the observers of the *Green Bonds Principles* of the ICMA, International *Capital Markets Association*. Furthermore, it supports the issuance of ' *climate-aligned* ' bonds, securities issued by companies whose activity falls within the sectors that support the transition process to a low environmental impact economy (BORSA ITALIANA, 2024).

[60] In particular China and India
[61] World Bank, International Finance Corporation, European Investment Bank, European Bank for Reconstruction and Development, Asian Development Bank, African Development Bank
[62] Through London Stock Exchange Group which is a signatory to the Paris Pledge for Action.

2.4 UN measures to support ESG finance

Regulatory interventions at an international and national level have represented the main viaticum for directing developed economies towards the transition to a sustainable business management model.

The large multinationals, in fact, have implemented these indications both with a view to adapting to the directives issued and to pursue reputational policies in view of widespread awareness on the topic. The legislation relating to ESG objectives finds its main sources in the UN and the EU. In many cases it is aimed at countries and concerns projects and the adoption of *best practices* at a macroeconomic level. The pursuit of national objectives involved companies through the national measures adopted to adapt to them. Today, "sustainable finance" is achieved by pursuing specific objectives suggested by institutional requirements which, among other things, have allocated support for those who adapt to them. From the observation of the UN initiatives on the ESG theme, particular importance was given to the search for orientation of activities in the direction of the development of renewable energy.

With specific reference to the financial sector, in 1992 a partnership was started between the UN Environment Program and the financial industry, UNEP [63]was entrusted with the task of promoting "sustainable investment" practices. The project involved over 200 members, essentially financial institutions, who committed to carrying out their activities according to the principles of sustainable finance included in the UNEP *Statement of Commitment by Financial Institutions on Sustainable Development*[64]. Subsequently, specific indications on sustainable finance were initiated by UN agencies[65] and other international bodies, such as the Global Green Finance council (GGFC), the Financial Stability Board and the International Association of Insurance Supervisors (IAIS). With the Paris Climate Agreement of 2015, the

[63] The UN uses many international instruments and bodies created under its aegis to promote various climate initiatives. Among these, UNEP (United Nations Environment Programme) which regulates the agenda for global sustainable development. The WMO (World Meteorological Organization), on the other hand, deals with cooperation for weather forecasts with a view to identifying climate changes. The Intergovernmental Panel on Climate Change (IPCC), on the other hand, is the body that prepares studies to propose in climate negotiations. The “Conference of the Parties” (COP) establishes the strategies necessary to achieve the objectives of the Convention.

[64]This is a Declaration of commitment by financial institutions on the sustainable development of UNEP, a formula that is signed by those who intend to join the body.

[65]Including the Principles for Responsible Investment of 2006, the Principles for Sustainable Insurance of 2012, The Principles for Positive Impact Finance of 2017.

UN carried out a prodigious intervention aimed at improving the capacity of countries to deal with the management of impacts[66].

The agreement states that the signatory parties " *recognize the importance of avoiding, minimizing and addressing loss and damage associated with the adverse effects of climate change, including extreme weather events and slow-onset events, and the role of sustainable development in reduce the risk of loss and damage"* .

Among the objectives envisaged is that of making financial flows consistent with development with low greenhouse gas emissions by introducing "*common but differentiated responsibility between different countries*"[67].

This means that developing countries have been given a different timeframe to adapt to the indications than industrialized countries. The indication of the term financial flows pertains to business investments (ARISTEI L., 2017).

An important instrument introduced on this occasion was the *Green Climate Fund* [68], designed to increase public and private investments in the development of new low-emission technologies. The promotion of renewable energy was supported by using a tax framework differentiated based on the energy sources adopted. Among the various measures adopted by the UN, the aforementioned "2030 Agenda for Sustainable Development", signed in September 2015, represents another ambitious and broad action program aimed at people, the planet and prosperity[69].

"Agenda 2030" introduced 17 objectives and 169 targets that address "sustainable development" in its three fundamental dimensions: economic, social and environmental. The reference to the role of taxation is evident in objective 12.c, according to which it is necessary to " *rationalize inefficient subsidies for fossil fuels that encourage waste by eliminating market distortions in accordance with national circumstances, including by restructuring taxation systems and progressively eliminating harmful subsidies, where they exist, so as to reflect their environmental impact, taking into account the specific needs and conditions of developing countries and minimizing possible negative effects on their development, so as to protect poor and the most affected communities*" (AGENDA, 2030). In this sense, companies

[66]Aristei L., *L'accordo di Parigi: obiettivi e disciplina*. Rivista quadrimestrale dell'ambiente, (III), 2017, p.65.
[67] Ibidem
[68] The *Green Climate Fund* is a fund established under the UNFCCC (UN Convention on Climate Change, which is also known as the Rio Agreement), and acts as the operating entity of the financial mechanism aimed at assistance in developing countries in the introduction of adaptation and mitigation practices to combat climate change.
[69]Montini M., VF, *Sustainable Development at a turning point* , 2016, in: https://www.federalismi.it/nv14/article-documento.cfm?Artid=32698

have been induced to prefer some investment measures over others based on the tax advantages reserved for investments in ESG objectives. The Sendai Framework for Disaster Risk Reduction 2015- 2030 prepared by the UNDRR (United Nations Office for Disaster Risk Reduction) also dates back to 2015, "it is an agreement approved by the UN General Assembly after the Third World Conference on Risk Reduction of catastrophes (WCDRR)”[70]. Also in this hypothesis, the role played by taxation in the risk management policies adopted by companies was highlighted. Finally, among the many UN initiatives aimed at encouraging sustainable production systems, it is worth mentioning the " *One Planet Summit* " in Paris in December 2017, in which some central credit institutions and banking supervisory authorities met in the *Network of Central Banks and Supervisors for Greening the Financial System* (NGFS) aiming to promote *best practices* to be introduced in the banking sector for the transition towards a sustainable world economy (MONTINI M., 2016).

2.5 EU measures for sustainable finance

As regards the attention to the issue of sustainable objectives by the EU, it does not appear recent. Since the launch of the "EU strategy for sustainable development" in 2001[71], amended in 2006[72] and 2009[73], the European Commission has expressly committed itself to contributing to the promotion of sustainable development in transversal projects, intervening in all environmental sectors, social and *governance*.

The introduction of the "Europe 2020 Strategy" in 2010, as well as the explicit reference to the UN sustainable development objectives in the 2016 Commission communication concerning the stages for a sustainable European future, confirmed the role of leader of the European Union in the implementation of the UN Agenda 2030 (PINTO SANTOS P., CHMUTINA K, VON MEDING J., EMMANUEL RAJU, 2021).

The main act was the "Action Plan" to finance sustainable growth, launched in 2018 which subsequently merged into the more general European Union (EU) Green Deal of 2019, in turn

[70] Pinto Santos P., Chmutina K, Von Meding J., Emmanuel Raju, *Understanding disaster risk. Amsterdam*, Netherlands: Elsevier, 2021, in:
https://www.sciencedirect.com/science/book/9780128190470

[71] European Commission, Communication from the Commission, COM/2001/0264 final, 15 May 2001.

[72] European Council, Renewed EU Sustainable Development Strategy, 10917/06, 26 June 2000.

[73] European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Mainstreaming Sustainable Development into EU Policies: 2009 Review of the European Union Strategy for Sustainable Development, COM (2009) 400 final, July 24, 2009.

strengthened in 2021 with the “Ready for 55%” plan which concerns a series of policies aimed at achieving decarbonisation objectives, sustained by 2050 (PINTO SANTOS P., CHMUTINA K, VON MEDING J., EMMANUEL RAJU, 2021).

The European "Action Plan" has three objectives: i) the orientation of capital flows towards investments that are characterized by being sustainable; ii) the management of financial risks that are linked to climate change, the process of resource depletion and environmental degradation; iii) the promotion of transparency and the introduction of an innovative culture into economic-financial activities that leads to a long-term vision. The evolution of the EU policy in favor of "green investments" has finally led to the *Green Deal* whose aim is to "*improve the EU's natural capital and protect the health and well-being of citizens from environmental risks and the related consequences*"[74].

To achieve this goal, Europe has understood the impossibility of acting alone, taking into account the fact that the factors underlying climate change and the reduction of biodiversity have a global dimension and do not stop at borders national, producing their impacts beyond the places where they occur (*spillover effects*). Again, the use of fiscal measures was designed to increase the value attributed to “*the protection and restoration of natural ecosystems, the sustainable use of resources and the improvement of human health*”[75].

Furthermore, the call for investments in the direction of sustainability is evident in the exogenous setting of the carbon price aimed at encouraging consumers and businesses to change their behavior and to divert the choices of industries towards sustainable measures. From this perspective, the Green Deal calls for the elimination or, at least, a strong reduction of subsidies for fossil fuels and envisages, at a national level, the elimination of subsidies that had harmful impacts (MONTINI M., VF, 2016).

Taxation has a very specific task reserved for it: "*stimulate economic growth, improve resilience to climate shocks, contribute to a fairer society and support a just transition, sending the right price signals and incentivising producers, users and consumers to adopt behaviors sustainable*”[76]. The combination of the objectives of relaunching the economy and better managing environmental risks constitutes one of the most ambitious goals and requires "*a context suitable for large-scale fiscal reforms* ".

[74] Montini MVF, *Sustainable Development at a turning point,* cit.
[75] Ibidem
[76] Montini MV, *Sustainable Development at a turning point*, cit.

The proposal for the first European climate law includes a strategy to achieve climate neutrality by 2050, introducing incentives for structural investments that increase energy security and reduce the vulnerability of infrastructure to extreme events[77].

In 2017, the Commission decided to start a new evaluation process of the Energy Taxation Directive introduced in 2003, starting a broad public consultation to try to identify a series of solutions that were as shared as possible. The consultation concluded in September 2019 with the drafting, by the Commission, of the document Evaluation of Directive 2003/96/EC, which restructures the community framework put in place with a view to taxing energy products and electricity.

The new tax framework, according to the Council, must be defined to "*improve the functioning of the EU internal market, support the transition towards a climate-neutral EU and contribute to the EU's long-term competitiveness and budgetary needs of its Member States"*[78].

Energy taxation, we read, constitutes "*an important part of the economic incentives that drive a successful energy transition, promoting low greenhouse gas emissions and investments in energy savings while contributing to sustainable growth*". Recently, the European Commission proceeded to emphasize the potential and functioning of the *green bond trading market* , promoting a package of measures entitled "Clean energy for all Europeans", which provided for the introduction of a supplement of 177 billion from 2021 of euros per year aimed at achieving the objectives identified for 2030.

In the financial sector, the European Commission has appointed a group of experts on "sustainable finance" (*High-Level Expert Group on Sustainable Finance*, or HLEG), entrusting it with the task of providing technical recommendations for the development of a global strategy of the EU on the matter. The official document was published in January 2018, and highlights the importance of promoting "sustainable finance" through a systemic review of the financial framework and proposes eight recommendations, as well as other cross-cutting actions aimed at specific financial sectors. The recommendations are: "(i) develop a common taxonomy in the field of sustainable finance; (ii) include ESG criteria and the long-term time

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[77] COMMISSIONE EUROPEA, *Regolamento del Parlamento europeo e del Consiglio: che istituisce il quadro per il raggiungimento della neutralità climatica e che modifica il regolamento* (UE) 2018/1999 (Legge europea sul clima), 2020, in:
https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52020PC0080&from=IT

[78]In addition to these objectives, the Commission identifies some elements which it believes need to be paid attention to in the definition of the new regulations. In particular, attention should be paid to biofuels and other alternative fuels; the applicability of measures on the control and circulation of certain products, including the treatment of lubricating products and designer fuels; innovative products and new technologies to be used in energy sectors; relevant sectors, including aviation; of procedures and regulations regarding state aid.

horizon in the definition of institutional investors' fiduciary duty; (iii) make the system of rules for reporting non-financial activities by companies more functional and efficient, starting with the risks and opportunities linked to climate change; (iv) promote greater awareness among European citizens and savers regarding sustainable finance; (v) introduce quality standards and certifications for SRI products; (vi) establish *Sustainable Infrastructure Europe* (SIE), with the function of stimulating investments in sustainable infrastructure, for example in the sectors of environment and energy, water resources and waste management; (vii) promote a reform of the governance systems of financial companies; and (viii) include ESG criteria in the mandates of the European supervisory authorities that supervise the correct functioning of financial markets"[79].

Based on the final report published by the HLEG, the Commission introduced the Action Plan which establishes a strategy to strengthen the link between the financial sector and the principles of sustainable development. The Action Plan pursues three objectives (EUROPEAN COMMISSION, 2021): "(i) reorient capital flows towards sustainable investments, in order to achieve sustainable and inclusive growth; (ii) manage financial risks arising from climate change, environmental degradation and social issues; and (iii) promote transparency and long-term economic and financial activity". Finally, in the in-depth analysis of financial solutions for sustainability, the SFDR Regulation, which came into force on 10 March 2021, deserves a mention, which saw the EU set itself the objective of developing information for investors on the subject of sustainability of financial service providers, introducing rules that improve the quality of information and comparability of products in terms of compliance with ESG principles. What has been described highlights how, in the financial sector, legislators wanted to spread ESG objectives by supporting the purchases of securities issued by these entities.

2.6 The diffusion of sustainable finance

Observing the market today, sustainable finance is developing in various ways. First of all, there is a growing demand from investors who are increasingly considering ESG aspects in their portfolios to reduce risks and seek long-term sustainable investment opportunities. Governments and financial institutions are also introducing laws and regulations that promote

[79] HLEG FR, *Final Report 2018 by the High-Level Expert Group on Sustainable Finance - Secretariat provided by the European Commission* - Financing a sustainable European economy, 2018, in: https://ec.europa.eu/info/sites/default/ files/180131-sustainable-finance-final-report_en.pdf

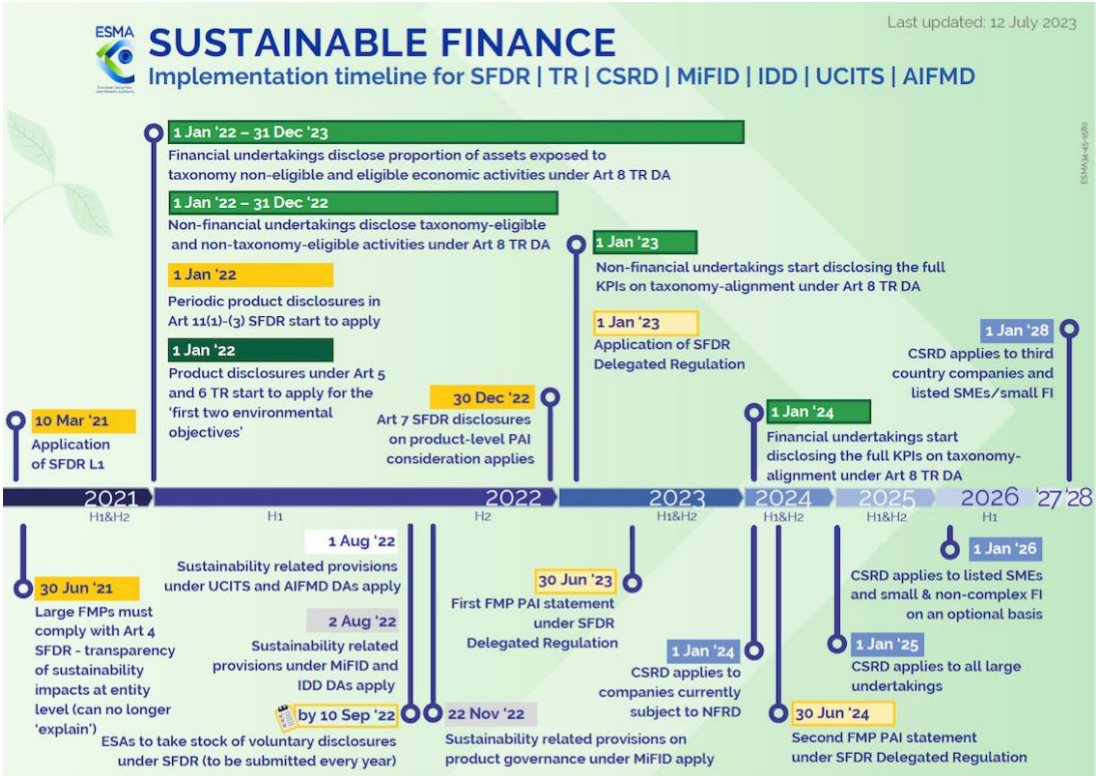
ESG transparency and encourage sustainable investing. This may include mandatory disclosure of ESG risks and the integration of ESG criteria into decision-making processes. New financial instruments and products are emerging to support sustainable investments, such as the aforementioned green bonds, social bonds and sustainability-linked loans. These tools provide funding for projects and initiatives that promote sustainability. Technology is also playing an increasingly important role in evaluating and monitoring the ESG performance of companies and projects. Precisely the availability of better data and advanced analytical tools is improving investors' ability to evaluate the environmental and social impact of their investments. Collaborative efforts between companies, investors, governments and civil society organizations are also accelerating the development of sustainable finance. Initiatives such as the United Nations Principles for Responsible Investment (PRI) and the Paris Agreement on climate change are catalyzing joint actions to address global challenges by making corporate commitments increasingly mandatory. In summary, sustainable finance is growing in terms of both awareness and practical implementation, as more and more players in the financial sector recognize the need to integrate ESG considerations into their activities.

3. Forward looking

Important innovations regarding sustainable finance are expected in the coming years.
ESMA (European Securities and Markets Authority), the regulatory and supervisory authority for the EU financial markets, the stages started in 2021 and those that will start by 2028 which concern the regulation of sustainable finance.
ESMA cites among the expected stages the SFDR (Sustainable Finance Disclosure Regulation), the European Taxonomy, the CSRD (Corporate Sustainability Reporting Standard Directive), the MiFID, the IDD (Insurance Distribution Directive), the directive aimed at collective investment in transferable securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD)[80].

[80] ttps://esgnews.it/regulator/finanza-sostenibile-lesma-fa-il-punto-sulle-normative-in-associazione-nei-prossimi-5-anni/

Fig. 5: Timeline



Source: ESMA

The SFDR regulation, which concerns disclosure on sustainability in the financial services sector, entered into force on 10 March 2021. Large financial market operators (Financial Market Participants) had to apply Article 4 SFDR, in which Transparency of the impacts determined on sustainability is expected. Article 11 SFDR imposed the publication of initiatives to promote environmental or social characteristics and sustainable investments in periodic company reports mandatory from 2022. Article 7 SFDR concerns the main negative effects (PAI) that the product financial produces on sustainability.

The SFDR required the European supervisory authorities (EBA, EIOPA and ESMA, ESA) to start work to put in place a Regulatory Technical Standards that regulates the more technical aspects[81].

Although it came into force in March 2021, the SFDR regulation only saw its actual introduction on 1 January 2023.

[81]https://esgnews.it/regulator/finanza-sostenibile-lesma-fa-il-punto-sulle-normative-in-associazione-nei-prossimi-5-anni/

The Sustainability Reporting Directive (CSRD), published at the end of 2023, applies to companies currently subject to the Non-Financial Reporting Directive (NFRD) from 1 January 2024. From 1 January 2025 all large companies will be subject to the regulation companies, as well as small and medium-sized listed companies and small and non-complex financial institutions on an optional basis. From 1 January 2028, third-country companies and listed SMEs and small financial institutions (no longer on an optional basis) are also subject to the CSRD.

Regarding the taxonomy, in 2020 the Commission introduced a classification of activities that can be considered sustainable based on alignment with EU environmental objectives. Economic activities were required not to cause significant damage to any of the objectives pursued ("Do No Significant Harm" clause, DNSH). Specifically, the objectives concern (EUROPEAN COMMISSION, 2020):

- the mitigation of the effects of climate change;
- adaptation to climate change;
- the sustainable use and protection of water and marine resources;
- the transition towards a circular economy;
- reducing waste and recycling materials;
- the containment of pollution and the protection of ecosystems.

In the period between 1 January 2022 and 31 December 2023, both financial and non-financial firms began to declare the suitability of products and activities for the taxonomy. According to Article 8, organizations subject to CSRD from 1 January 2024 will be required to make public information regarding alignment with the taxonomy via certain indicators such as turnover, capital expenditure and operating costs. From 1 January 2024, financial companies began to disclose KPIs (Key Performance Indicators, performance indicators on sustainability issues). In August 2022, the revisions of Mifid 2 relating to the financial sector and of the IDD for the insurance sector also came into force. These measures involved the integration of ESG preferences in the assessment of the suitability of their products. These directives oblige financial advisors to evaluate the suitability of investments by considering the sustainability preferences expressed by their clients. Financial instruments are required to consider sustainability factors and to make consultancy contracts and adequacy questionnaires "ESG compliant".

Finally, in August 2023, the Directive on risks and sustainability factors to be taken into consideration for undertakings for collective investment in transferable securities (UCITS) and the Alternative Investment Fund Managers Directive (AIFMD) entered into force Directives).

Below is a table that collects the various topics addressed, summarizes them and raises the question about their relevance to the banking sector.

	Objectives	Impact on banks
Megatrends by 2030	1 Protect and restore Earth's ecosystems	√
CSR	2 Organization of sustainable businesses	√
Sustainability	3 Do not compromise the use of resources for future generations	√
Sustainable Finance	4 Promotion of investments in sustainable activities	√
ESG and Sustainable Finance	5 Evaluation of ESG in financial initiatives	√
EU measures for sustainable finance	6 Europe 2020 strategy European Action Plan	√

To answer the question of research: whether the principles of sustainability disseminated through literature are applied in banks and to what extent the adoption of the principles in the illimity bank has changed perception, these data should be evaluated for this purpose.

The work continues with an in-depth analysis of the importance of sustainability in investments.

CHAPTER II

THE IMPORTANCE OF ESG FACTORS IN INVESTMENT CHOICES

2.1 A definition of "ESG investing"

The concept of "sustainable finance", as mentioned, refers to the process of including *environmental*, *social* and *governance* considerations in investment decisions. The aim is to increase investments in long-term sustainable activities. As widely described in the previous pages, sustainability has taken on an increasingly broader meaning, integrated into the acronym ESG.

With regard to the specific objectives of ESG, they refer to the environmental dimension (eg greenhouse gas emissions, water management, waste management, etc.), social dimension, which concerns respect for human rights, compliance with *best practices* in terms of health and safety at work and, in general, the company's relationship with its workers and collaborators and, as regards the *governance dimension*, we refer to the composition of the corporate bodies, transparency, the adoption of a code of ethics , employee remuneration policy, the introduction of programs aimed at combating corruption in the company, etc. The European Commission uses terms such as "sustainability", "sustainability risks" and European "sustainability factors" to include the aspects described.

The *Europeans Supervisory Authorities* (ESA), namely EBA, ESMA and EIOPA [82], in their initiatives aimed at encouraging sustainable finance use the term "sustainable development", in the meaning coined by the Brundtland Report of 1987, which refers to development that " *meets the needs of the present without compromising the ability of future generations to satisfy their own needs*"[83]. If, however, we observe the definition of the term formulated in the UN "Agenda 2030" document, described in the previous chapter, "sustainability" is a term that refers to issues such as poverty, climate and environmental degradation, citizenship and

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[82] Eba is the European Banking Authority, one of the EU bodies established in 2011. The Eba is responsible for the supervision of the European banking market; *European Securities and Markets Authority* (*ESMA*) is the European Securities and Markets Authority. Established in 2011, it deals with the surveillance and monitoring of the financial market. EIOPA is the European Insurance and Occupational Pensions Authority. This body was also established in 2011 and is responsible for the supervision of the EU insurance market.

[83] World Commission on Environment and Development (WCED), Our Common Future, Oxford, Oxford University Press, 1987

responsible consumption, health, inequality, peace and justice (WCED, 2019). At community level, Directive 2014/95/EU connects "sustainability" in the financial sector (referring only to large companies and entities of public economic interest) by recalling the need to publish, on an annual basis, an document certifying the approach taken on the environment, workers, respect for human rights, fight against corruption and training on boards of directors (in terms of training and professional background, age, gender).

From what has been described, as is evident, a single definition of "sustainability" is missing, which constituted one of the major critical issues expressed by the participants in the public consultation promoted by ESMA for the integration of sustainability into MiFID II, the regulation that regulates services European financial institutions[84].

In this regard, the *Securities and Markets Stakeholder Group* (SMSG)[85] observed that the absence of definitions and classification of the term constitutes a substantial gap capable of hindering the implementation of a harmonized approach to "sustainable finance".

Precisely in view of an attempt to standardize the definitions in question, new definitions of "sustainable investments", "sustainable risks" and "sustainable factors" have been introduced in regulation 2019/2088/EU concerning disclosure on sustainability in the financial sector in force from 2021 [86]. “Sustainable investments” are indicated as those that “*contribute to an environmental objective (in terms of energy use, renewable energy, raw materials, water and land, waste production, greenhouse gas emissions and impact on biodiversity and on the circular economy) or which contribute to a social objective (e.g. fighting inequality, promoting social cohesion, social integration and working relationships*[87]. The regulation specifies that companies can manage their activities under the condition of not damage these objectives and that investee companies are also required to adopt good *governance practices*.

Whatever the definition of "sustainability", it is understood that ESG objectives presuppose that companies comply with the principles of *Corporate Social Responsibility* (Official Journal of the European Union, 2019).

Before continuing, it is worth summarizing the concept of sustainable finance as an integration of various assumptions. The following figure shows its contents.

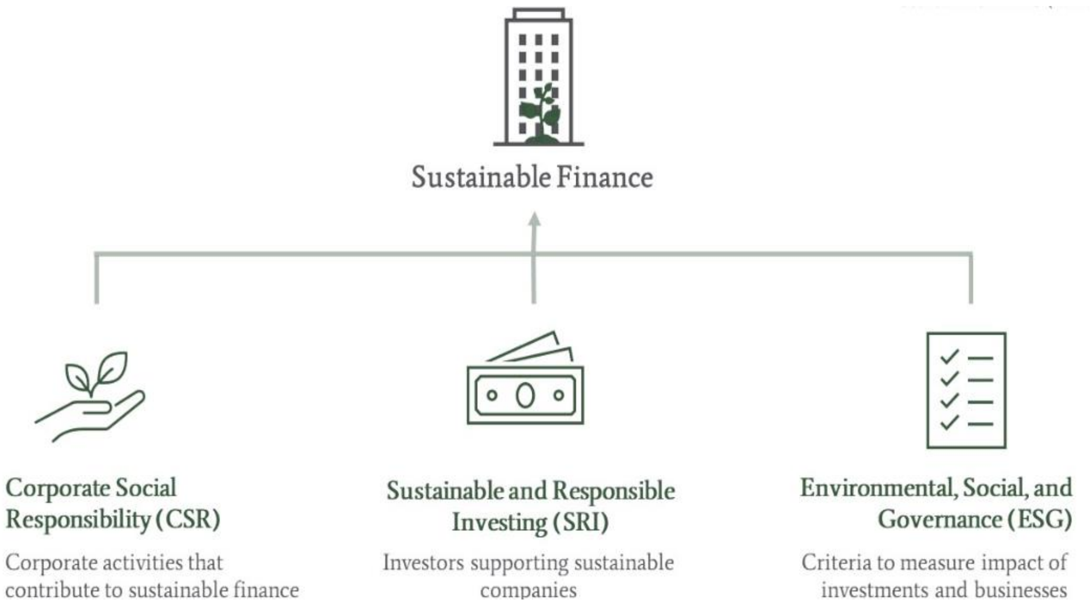
[84]Securities and Markets Stakeholder Group [SMSG], 2019.

[85]The Securities and Markets Stakeholders Group (SMSG) facilitates ESMA's stakeholder consultation by providing technical advice on its policies under development.

[86]Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability disclosures in the financial services sector, art. 2

[87]Official Journal of the European Union, 2019.

Fig. 6: The pillars of sustainable finance



Source: https://nbs.net/sustainable-finance-meaning-and-examples-in-business/

2.1.1 Corporate social Responsibility in the financial sector

The implementation of the “Action Plan” on sustainable finance is the most important signal sent by the EU of its commitment to the transition towards a sustainable economic system. It should be read as a complement to other environmental and climate policies.

The "Action Plan", as mentioned, embraces the common objectives set by the 2016 Paris Agreement on climate change and the UN 2030 Agenda for sustainable development by giving them directions.

The Action Plan contains specific references to "sustainable finance" referring to the protection of investors, including in the form of acting in their best interests which also implies that ESG preferences are duly taken into consideration in investment processes. In this sense, *Corporate Social Responsibility* (CSR) is suggested as a prerequisite for corporate management aimed at these purposes. Summarizing the principles pursued by CSR, it is necessary to start from the responsibility that the company must assume with respect to its impact on society and development. Another principle is *transparency* regarding its social responsibility objectives and the provenance of its financial resources. Ethics, on the other hand, consists of the obligation to behave honestly and respecting both people and the environment, in this sense it is necessary to have a clear idea of one's *stakeholders.* Finally, a company that operates according to CSR principles respects the law and human rights.

The Action Plan contains regulatory proposals and changes to existing financial regulations (MiFID II, AIFMD, UCITS etc.) in the form of implementation of ESG themes (but also of improving the quality of the services and investment products offered, aligning them with preferences of investors) [88]. The adoption of CSR in the corporate context is also induced by preventing companies that do not align with it from issuing a vast range of financial instruments. In other words, companies that do not adopt CSR principles cannot issue securities linked to ESG objectives. Among the requests made to companies by the Action Plan is the adoption of more responsible production and decision-making processes, combined with the dissemination of data on the impact of their activities.

CSR is also expressed in the communication of information on products and in the adoption of rules of conduct, up to the *product governance and intervention,* i.e. supervision and *governance* through control systems over activities aimed at design, approval, marketing and management during the entire life cycle of products, to ensure that they meet legal and regulatory requirements.

Despite these measures, to date there remains a lack of a common methodology and classification and *benchmark standards* regarding *sustainability*[89]. In particular, there is a lack of uniformity in the rendering of information, which makes its evaluation difficult. Doubts also remain regarding the correct disclosure of ESG data (which often shows differences between the contents expressed in official documents and those published in other areas) which risks reducing the level of investor confidence in the market for sustainable financial products, but also negatively impact product governance obligations (SIRI & ZHU., 2019).

There is currently a lack of non-regulatory measures, such as cross-verification with external data sources, which could increase the reliability of the assessment. Another perceived need is to guarantee a gradual approach to ESG integration, which is achieved by avoiding requiring financial operators to immediately adapt to requirements that conflict with the level of maturity of the market for sustainable financial products (SIRI & ZHU., 2019). Ensuring high levels of financial education and culture also appears vital to the success of the reform process.

[88] ESMA, 2018.

[89] Siri & Zhu. (2019), *Will the EU Commission Successfully Integrate Sustainability Risks and Factors in the Investor Protection Regime?* A Research Agenda. Sustainability, 11(22), 6292. https://doi.org/10.3390/su11226292

In this regard, better disclosure of financial information, the implementation of surveys and the activation of financial education initiatives could be insufficient, avoiding an inconsistency between the preferences declared by investors and the behaviors actually adopted.

2.1.2 Forms of sustainable and responsible investment (SRI)

As seen in the previous pages, sustainable investments presuppose that those who implement them adopt the principles of *Corporate Social Responsibility,* a system which, as seen in the first chapter, provides for the adoption by companies of procedures that are attentive to the impacts and their reporting. If sustainable finance refers to investments in sectors that adopt ethical behavior, it may be useful to trace the expressions that they can manifest.

Concrete examples of sustainable activities can be seen in both *retail* and industrial products which, consequently, attract the interest of sustainable finance. In the fishing sector, for example, the adoption of fishing nets with medium-large mesh size guarantees a catch that does not violate the natural laws which prevent the repopulation of the sea if small fish are caught.

Many examples of sustainable management can be observed in the agricultural sector, where crops are being grown in greenhouses built using artificial light and climate control systems, which reduce the need for water and pesticides, promoting the growth of healthy products. The use of hydroponic systems which involve agricultural cultivation in water, limiting the use of land, are also examples of sustainable activities[90]. Studies have highlighted the advantages of these production systems, especially with reference to the stabilization of volumes and the results that they allow thanks to the control of environmental parameters. Thanks to the reduction in the use of pesticides and the improvement in biosynthesis, these production techniques also guarantee better food quality and greater freshness of the products. Added to this is the reduction of environmental impacts achieved by using limited external supplies, which brings with it a reduction in impacts related to transport. Vertical cultivation, in fact, improves the efficiency of resource use, allowing the production of large quantities of food in small surfaces[91]. However, the high initial investment costs, as well as the energy

[90]They presuppose the use of natural pesticides which, when introduced into the cultivation water, do not spread into the soil.

[91]In hydroponic systems, the adoption of systems for condensing transpired water and re-introducing it into the irrigation system allow significant savings in water and nutrients. Pennisi G., Sanyé-Mengual E., Orsini F., Crepaldi A., Ochoa J., Fernandez JA, Gianquinto G. (2019), *Modeling Environment Burdens of Indoor-Grown*

consumption associated with the use of artificial lighting, still represent a deterrent to such cultivations[92]. There is a lack of initiatives for the issuing of securities by these activities, also because industrial crops of this type are not yet visible (PENNISI G., SANYÉ-MENGUAL E., ORSINI F., CREPALDI A., OCHOA J., FERNANDEZ JA, GIANQUINTO G., 2019).
However, financing for technological innovation in artificial lighting systems is possible, as electricity costs represent a majority of production costs.
In every industrial sector, among the ESG initiatives, we should also mention those that see the introduction of LED technologies, the costs of which can be deducted in the declaration. Examples of CSR can be observed in the construction sector, a sector in which *inputs* such as paints, cements, glues, etc. can be purchased obtained with raw materials characterized by low impact. Furthermore, all processes aimed at saving energy and using *green sources,* such as solar panels or wind energy, are sustainable. Generally speaking, in large industries, sustainable processes are mostly aimed at the use of machinery with low environmental impact and the use of ecological packaging, even if not biodegradable. In Italy, tax exemptions are foreseen in the event of replacement of excessively polluting plants and with very long production cycles. Those dedicated to the production of non-polluting cars are also sustainable, encouraged by the EU through the introduction of a ban on the production of petrol, diesel or methane injection vehicles by 2035.
Other examples of CSR companies can be found in the choices to build car parks for their employees, in which trees are planted which introduce oxygen into the environment.
Some companies profess their inspiration to the principles of CSR by launching initiatives that involve the planting of a tree for each quantity of products sold, or the training of people residing in the area, removing them from unemployment and, in a certain sense, contributing to mitigation of social tensions. Examples of CSR are construction works aimed at the reclamation of the places in which to set up one's factories, or the construction of roads and the improvement of existing ones[93]. Also in the construction sector, the construction of complexes in which to include swimming pools, gyms or cycle paths open to all or, in every area, initiatives to train executive staff on ESG principles (KONG, Y., NEMALI, A., MITCHELL, C. & NEMALI, K., 2019). Investments by financial institutions, of the SRI type,

Vegetables and Herbs as Affected by Red and Blue LED Lighting, in Sustainability, vol. 11, no. 5, pp. 4063 ss. (available online at https:// doi.org/10.3390/su11154063).
[92] Kong, Y., Nemali, A., Mitchell, C. & Nemali, K. (2019), Spectral Quality of Light Can Affect Energy Consumption and Energy-use Efficiency of Electrical Lighting in Indoor Lettuce Farming. HortScience, 54(5), 865–872. https://doi.org/10.21273/HORTSCI13834-18
[93] Siri M., Zhu S. (2019), *op. cit.,* p.89.

therefore, refer to the purchase of securities issued by entities which, in pursuing profit, do not neglect the social, environmental and governance *impact*. In practice, "Social Investment Responsibility" (SIR) is a concept that refers to the practice of investors considering not only the financial return of an investment, but also its social and environmental impact. Investors who adopt an SIR perspective seek to invest in companies or projects that demonstrate a commitment to environmental sustainability, social responsibility and good corporate governance (ESG).

This form of investment aims to generate a positive impact beyond financial return, pushing companies towards more sustainable and socially responsible practices and allowing investors to express their preference for companies that adopt policies that promote diversity, inclusion, reduction of carbon emissions, respect for human rights and other ethical practices (SIRI M., ZHU S., 2019.

SIR can take various forms, including responsible investing, impact investing and corporate philanthropy. While traditional investments focus primarily on financial return, SIR integrates social and environmental considerations into investment decision-making, recognizing that companies' actions can have significant consequences on society and the environment.

2.2 SRI strategies

The sustainable portfolios of financial companies are composed only of securities issued by companies organized according to CSR criteria.

Very often, institutional investors are required to purchase from these issuers due to the obligations imposed by the regulatory interventions described in the previous pages; however, there is no shortage of reasons that go beyond this reputational data, for example, is one of the reasons why many banks, or investment funds, asset management companies, etc., prefer these securities, in order to offer a positive and shared brand image[94]. There is no shortage of cases in which financial investors are motivated to invest by trust in sustainable activities considered innovative and suitable for conquering new markets, offering services or undertaking initiatives that bring advantages in certain areas or spaces.

Below is the analysis of some SRI strategies (SIRI M., ZHU S., 2019).

[94]Ibidem

2.2.1 SRI screening strategies and methodologies

An SRI is achieved by selecting only sustainable securities, i.e. issued by companies whose management method and objectives achieved are known, with a view to predicting any possible significant effect on the environment, in the social sphere and the governance *implications.* The evaluation procedures require that individual investments are evaluated considering all the impacts that derive from them.
Selection is the procedural phase that divides the issuers based on the impacts they achieve, taking into account their plan or the program they pursue. The overall assessment concerns the impacts that these activities have in environmental, social and *governance terms.*
Screening constitutes the preliminary phase through which companies are selected that highlight the use of ESG principles in their projects and activities.
Screening takes on various references, being able to pertain to:
"Negative" screening, which concerns companies that are excluded from investments because they do not qualify (for example, those that use highly polluting plants, or that resort to child labor in developing countries, etc.) [95]. This *screening* can lead to the removal of companies that, although without exclusionary conditions, have *partners* that use polluting technologies or that also produce in impactful areas, such as those dealing with tobacco production.
Norms-based screening is a subcategory of negative environmental/social *screening that* involves the exclusion from portfolios of securities issued by companies that do not comply with internationally accepted "norms" such as the United Nations Global Compact, Kyoto Protocol, Declaration of United Nations human rights, etc.
"Positive" screening, on the other hand, concerns the evaluation of companies that have passed the preliminary phase and whose actual expected performances need to be analyzed.
As we will see later, there is an ESG *rating* that measures these impacts (SIRI M., ZHU S. 2019).

2.2.2 Sustainable investment by retail and institutional investors

"Sustainable finance" does not exclude the inductive function, i.e. the pursuit of purposes of encouraging ESG practices.

[95]Siri M. & Zhu S. (2019), op. cit., p.98.

For example, in the *retail financial sector* we deal with insurance and banking products, which aim to guide the consumer or micro-enterprise towards consumption activities, investment and savings choices that are sustainable in nature. “With the spread of sustainable products, sustainable finance for *retail* supports, today, new purchasing models and behaviors. This is evident in the various daily activities, furthermore, it provides access to credit to SMEs that carry out productions with sustainability standards (SIRI M., ZHU S., 2019). The purpose of *retail* finance is to encourage and disseminate the provisions of the 2030 Agenda with innovative business models that take care of the well-being of consumers, SMEs and territories"[96].

Specifically, *retail finance* refers to microcredit , microinsurance and microfinance interventions[97] up to the promotion of so-called honor loans; advance severance pay granted to employees during economic crises; tools aimed at supporting social enterprises and those in the starting phase, *start-ups* ; mortgages granted to families aimed at purchasing homes with a high energy class, for the purchase of means of transport that have a low impact on the environment, for the installation of photovoltaic panels in homes, for the replacement of fixtures and boilers with other solutions that have higher yields; loans granted to companies that adopt the circular economy model; free current accounts for socially disadvantaged account holders; loans granted at a subsidized rate to disadvantaged individuals in lagging countries; insurance policies aimed at financing projects of social and environmental importance; credit cards that are associated with fundraising projects to be allocated to solidarity initiatives; insurance policies and multi-risk policies for agricultural companies[98]; insurance policies aimed at protecting against risks from natural disasters; shares of funds whose investments focus on projects that take into account ESG criteria; services to implement the so-called *Ecobonus and Sismabonus* and for the strengthening of fair and sustainable trade[99].

The illustrated examples therefore highlight that, in addition to rewarding companies that follow ESG criteria, sustainable finance performs an important function in spreading the culture in question.

[96]Fedeli M. and Timpano F. (2019), *I Economia italiana* 2019/2. Assosef
[97]Ex art. 111 TUB
[98]For example, aimed at offering coverage in the event of unexpected and significant changes in turnover.
[99]Introduced with the relaunch decrees launched during the pandemic crisis.

2.3 The ESG score and rating

The tool used to measure the level of ESG objectives achieved by companies is the "ESG rating" which does not replace the normal *rating* recognized to companies, but completes it, also offering the public information on the non-financial goals achieved. The ESG Rating has become widespread in the last twenty years, following the introduction of non-financial information in the financial statements by private agencies. It is therefore not an official indicator but constitutes an important *best practice reference*. There is not a single ESG index, however, the existing ones are based on specific assessments that take into account specific aspects, such as the exclusion, from an investment perspective, therefore from a fund or portfolio of sectors, or practices; the selection of investments in sectors, companies or projects selected for ESG performance; the selection of investments considering the minimum standards of business practice based on international standards regarding environmental and social protection. Systematic inclusion by investors of assessments of environmental, social and governance factors; the existence of investments in themes or assets linked to sustainability, or impact/community investing. The ESG *rating* certifies the solidity of an entity issuing a security, or a fund, from an environmental, social and *governance perspective*. The *rating* is developed regularly, when specialized agencies collect environmental, social and *governance information* on listed companies to proceed with their subsequent evaluation. An ESG *rating* reflects the company's efforts and levels of social responsibility performance, communicating a brand image externally and serving as a reference for institutional investors who invest in the securities issued by these companies. In the investment *screening* process, these indices act as official references for institutional investors called upon to evaluate companies' commitments in terms of sustainability (SIRI M., ZHU S., 2019).
The parameters used to develop the ESG *rating* are: the reduction of CO2 emissions, the energy efficiency achieved or the efficiency linked to the use of natural resources, the quality of the environment for carrying out work activities, trade union relations, the monitoring of supplies and respect for human rights, the choice to introduce independent directors into the Board of Directors, the use of diversity policies in the composition of the Board of Directors or the remuneration of *top management* linked to the achievement of sustainability objectives. In particular, a company is considered sustainable if it communicates the sustainability impacts of decisions, if it measures *business* decisions by analyzing all the environmental,

social and *governance consequences* and if it is concerned with creating shared value with all *stakeholders* in a stable manner over the time [100].

The calculation methods for evaluating the *scores* achieved are offered by various bodies, including the *Global Reporting Initiative (GRI), an independent organization promoted in 1997 by the Coalition for* Environmentally Responsible Economies (CERES) and by the UN Program for 'Environment (UNEP). The GRI pursues the aim of designing, promoting and disseminating shared guidelines for the reporting, on a voluntary basis, of the environmental and social *performances* of companies and spreading the culture of social reporting while respecting the criteria of rigor, verifiability and comparability. Below is the diagram indicating the impacts assessed by GRI and selected by Economic, Environmental and Social nature (FEDELI M. AND TIMPANO F., 2019).

Fig.7: Aspects of sustainability (GRI)

Elenco degli aspetti di sostenibilità previsto da GRI

201. Economic Performance **202.** Market Presence **203.** Indirect economic impacts	**204.** Procurement practices **205.** Anti corruption **206.** Anti competitive behavior	Economic GRI 200
301. Materials **302.** Energy **303.** Water **304.** Biodiversity	**305.** Emissions **306.** Effluents and waste **307.** Environmental compliance **308.** Supplier environmental assessment	Environmental GRI 300
401. Employment **402.** Labor management relations **403.** Occupational health and safety **404.** Training and education **405.** Diversity and equal opportunity **406.** Non discrimination **407.** Freedom of association and collective bargaining **409.** Forced or compulsory labor **410.** Security practices	**411.** Rights of indigenous people **412.** Human right assessment **413.** Local communities **414.** Supplier social assessment **415.** Public policy **416.** Customer health and safety **417.** Marketing and labeling **418.** Customer privacy **419.** Socioeconomic compliance	Social GRI 400

Source: GRI

Governance code

Corporate Governance Code (CG) is aimed in particular at companies with shares listed on the Mercato Telematico Azionario but, in practice, it constitutes a point of reference, in terms

[100] Fedeli M. and Timpano F., 2019, op. cit.

of *best practices* for what concerns *governance*, and refers to all corporate forms, even for unlisted ones[101]. Among the *best practices* already in use and confirmed by the Code, the recommendations addressed to listed companies to introduce, in their financial statements, a section designed to describe the activities undertaken with objectives other than purely financial ones are noteworthy. These indications are aimed at informing *stakeholders* about policies with sustainable objectives, illustrating them specifically, or describing their implementation methods and the results pursued. This is the broadest function of *engagement* with investors, i.e. the collaboration between the company and investor *stakeholders* with a view to directing management towards the best objectives. The provision of this information supported their detailed description and indication of the results obtained and today, the non-financial information thus provided is drawn from ESG *rating agencies in order to develop an opinion on their merit.* However, despite the importance of the reporting of "non-financial" elements[102], there is widespread complaint about their low reliability and the now established practice of showing often overestimated results, which are called *greenwashing*.

2.4.1 "Non-financial" declarations and the risk of Greenwashing

The diffusion of ESG practices among companies it has produced the consequence of seeing them compete by claiming results in environmental matters that are often emphasized. This can be seen both in official communications and in advertising policies. Initially, these abuses were denounced by a spontaneous movement of opinion which coined a neologism which has now come into common use: "*greenwashing* ".

Greenwashing is a term aimed at indicating the inappropriate appropriation of environmentalist virtues by companies, industries, or even political entities or organizations, aimed at creating a positive image of their *brand* through untruthful communication of *the policies* pursued. The term refers to the attempt of these companies to "wash with green", meaning with this notion the habit of obscuring their responsibilities for negative environmental impact, showing sustainability policies never pursued and results never achieved. The topic involved environmentalists to such an extent that they decided to publish,

[101]Its latest edition dates back to January 2021.
[102] "Public interest entities "with more than 500 employees and with a total balance sheet of 20 million euros and a total turnover of 40 million euros are obliged to report .

on an annual basis, the *Greenwashing Report*[103], which describes the real corporate policies of companies and the impacts caused.

In the analysis of these activists, corporate practices often illustrated too evasively were highlighted, or unreliable or undocumented published data, the use of false labels illustrating the use of *green products* which are not confirmed by analyzes of the goods. In many cases, product indications highlight *green aspects* that are required by law, for example, the non-use of CFCs, which are gases banned in the EU since 2003. In the United States, a specific body, the *Federal Trade, is responsible for dealing with this practice Commission* which prosecutes the crime of dissemination of misleading information regarding the impacts caused, while in Italy this function is exercised by AGCOM, the Competition and Market Guarantor Authority. Despite these controls, product indications remain which appear to be certified by unofficial bodies, often financed by the same polluting industries.

On the subject, in the doctrinal context, two different orientations can be observed , one which supports the need to monitor messages in an elastic and tolerant manner, limiting itself to guaranteeing that they are based on a principle of truth, that is, that they correspond to a real commitment of the company; and the other which aims to avoid an inflation of generic "ecological" messages, remedying this by introducing severe sanctions for those who fail to report precise and rigorously verified information. In Italy the case concerning a well-known mineral water is well known[104] which highlighted how this difference of views led to a conflict of assessments between two independent authorities: on the one hand AGCom (COMMUNICATIONS GUARANTEE AUTHORITY) which assessed the issue in a less onerous manner, leaning towards the dismissal of the case, considering that the company had demonstrated a commitment to environmental policy; on the other, the AGCM (Authority for Competition and the Market) which decided to condemn the message, deemed to contain indications affected by imprecision and, in part, undocumented, which referred to the results of the pollution reduction policy , widely publicized[105]. Even at an international level, the adoption of the strictest [106]*standard seems to prevail.* Finally, a further aspect concerns the advertised ecological virtues which can influence, even substantially, the purchasing choice

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[103]Montini M., Volpe F. (2016), *op. cit* ., p.88

[104]AGCM, PS4026 (provision no. 20559 of 10 December 2009), Acqua San Benedetto. La scelta naturale.

[105]AGCM, 2019.

[106]The most detailed regulation is that dictated in § 260 of the Federal Trade Guidelines US Federal Trade Enforcement Commission Commission Act. These guidelines provide severe sanctions for generic advertising messages and provide a rich example of the precision and verifiability requirements of messages aimed at praising individual environmental qualities of products (bio - or photodegradability, "compostability", recyclability, use of recycled material as raw material, recyclability, etc.).

made by the average consumer and, in the financial sector, induce investors to purchase securities mistakenly believed to be sustainable (MONTINI M., VOLPE F., 2016).

2.5 Definition of the concept of risk

The legal definition of "entrepreneur" refers to a person who assumes the "risk" of the business and this differentiates him from the employee who, however, carries out his business without taking on the associated risks. A business, therefore, is by definition an activity associated with a degree of risk that reflects the probability of losing what has been invested.

Since the risk threatens the company's *cash flow*, the survival of the business and employment, its correct anticipation allows us to avoid or reduce its conditioning. The UNI 11230 standards [107]define risk as "*The combination of the possibility of an event and its consequences on the objectives*". The EN ISO 12100 [108]standards[109]define it, however, as a "*Combination of the probability of damage occurring*". In the assessment of workplace risks, the EU introduces the notion of " *Probability that the potential level of harm will be reached* ". In Italy, the definition of risk as harm to the person resulting from the work carried out is contained in various legislative sources, including the Legislative Decree. n. 81 of 2008 which describes it as "*Probability of reaching the level of potential damage in the conditions of use or exposure to a specific agent or factor or their combination"*[110] and invests the entrepreneur with responsibilities deriving from the damage caused during the production activity phases.

Whatever the definition of "risk", it can be observed that it always refers to the existence of a danger and the possibility that it could cause damage (MONTINI M., VOLPE F., 2016).

Complete business risk management therefore requires that everything that could affect the loss of invested capital be taken into consideration. Companies operating in the financial sector evaluate risk by referring to various potential damages, first and *foremost*, that of losing the amount invested which, in turn, is functional to the results of the underlying activities. Thus, if an investment fund purchases shares of companies operating in the real

[107]UNI standards are issued by the Italian National Unification Body, a private non-profit association that deals with technical standardization. UNI 11230 concerns "Safety at work".

[108]ISO certifications consist of certification for a business of the presence of professional tools aimed at ensuring compliance of its management systems with technical standards. ISO 12100 refers to the evaluation and management of machine risks.

[109]These are the rules developed by the Comité Européen de Normalization (CEN) which must be mandatorily implemented by the member countries

[110]Art.2, letter s, Legislative Decree. 81/08. The Decree regulates safety at work.

market, their production, if unsold, implies the loss of the sums spent to obtain it, resulting in economic damage, the greater the higher the investment was associated with this transaction, resulting in a reduction in the value of the shares resulting in a loss for the Fund. Therefore, the risks of the companies whose securities are owned are transferred to financial investors. The risk can also derive from events that are independent of the activity carried out, think of the case of a fire that destroys the company or even just some parts of it or a meteorological event that causes structural damage. In addition to those described, there are also other risks typically relating to the corporate sphere, such as the reputational one, linked to the occurrence of events that damage the *brand image* , as happens in the case of harmful products withdrawn from the market which influence consumers' subsequent purchasing choices. Reputational risk can also derive from choices made by the company that appear unsuitable for market ethics. In light of what has been described, it is clear that the existence of a corporate risk requires the identification of its possible causes, or the individual factors from which it can originate, and the introduction of adequate measures to prevent it from occurring.

In doctrine, it is possible to classify the various types of corporate risk by referring to homogeneous classes, such as "business and financial risks", "operational risks", "legal risks" and "risks from catastrophic events".

In the corporate context, "business and financial risks" represent the cases that include the greatest variety of random events and are connected to the impacts of certain events on financial availability. These risks derive from specific operational areas such as the risk management of subsidiaries abroad; the *management of the Risks of the Investees in the country of origin; customer insolvency;* changes *in exchange rates;* the *change in interest rates*[111].

In the financial field, a further classification of corporate risks refers to those of an operational nature that originate in its processes, procedures as well as in the organization. “Operational risks” may concern the loss of a critical supplier, the loss of goods during transport, the blocking of information flow, the theft of sensitive data, dependence on key figures and the failure of critical machinery (CUCCURULLO C., 2009).

The loss of a critical supplier occurs with the loss of a relevant commodity both for the specificity of the product offered and for the quantity that it manages to ensure for the company, in a timely manner. The loss of goods during the transport phase refers to an event

[111] Cuccurullo C. (2009), *Le imprese a crescita intensa. Caratteri e profili. Prismi.* Padova, CEDAM, p.122.

that can occur either due to an accident or following the theft of the cargo, while the blockage of the information flow occurs when a *blackout* or IT failure prevents the regular carrying out of the operations activities, creating delays and inability to meet operational needs. The risk of the theft of sensitive data exposes the company to the theft of information that can impact the business (think of the case of the theft of customer names or passwords for accessing relevant information). One of the most serious operational risks concerns the disappearance of a particularly important company figure on whom various outcomes depend, think of the resignation of a technician who knows the machinery to the point of being the only one who can operate, repair and shut it down (CUCCURULLO C., 2009).

The company's dependence on key figures must always be prevented, for the reasons described. Finally, a further operational risk lies in the event that causes a failure of a fundamental machine, on which the entire production process depends. In general, corporate risks can consist of "pure damages", deriving from catastrophic events, i.e. connected to the occurrence, for example, of earthquakes, meteorological events, fires, theft of physical assets, etc.[112]

These events can have devastating impacts on business activities, even, in the most serious cases, requiring their permanent closure.

Focusing attention on the banking sector, in addition to traditional risks there are some specific ones that require the calculation of *capital adequacy coefficients,* which refer to the holding of quantities useful for dealing with events in the sector. The relationship between the banking sector and risk is particularly significant both in consideration of the impact that any crises can have on the market and the consequences on household savings. The latter is, in fact, also protected constitutionally by providing for its protection, which takes place in various forms. The forms of savings protection include provisions aimed at making banking practices subject to prudential rules, or regulations requiring sensitive information to be disclosed to the public (AA. VV., 2020), The Single Supervisory Mechanism (SSM), i.e. the European system that deals with banking supervision, led by the ECB and the national supervisory authorities of the participating countries, is also among the safeguards aimed at protecting savings through the monitoring of banking activities. The purposes of banking supervision carried out between EU countries are to safeguard the solidity and security of the system, to strengthen financial integration and stability, and to ensure coherent

112 Aa. Vv. (2020), Finanza aziendale, Milan, McGraw Hill, p.67.

supervision. European banking supervision is, together with the Single Supervisory Mechanism, one of the pillars of the EU banking union.
Among the best-known banking risks are the "credit concentration risk", which occurs through an excessive outflow of liquidity, the "interest rate risk of the banking portfolio", which concerns the case in which the difference between the commitments undertaken and the credits granted do not give positive results, etc. Banks evaluate risks by category (credit risk, market risk, operational risk, etc.) but tend towards "integrated risk management" which considers qualitative and quantitative assessments of an operational nature, evaluating their overall interrelationships (AA. VV., 2020).
With regard to the operational risks of credit institutions, the Basel Accords [113]aimed to dictate guidelines aimed at regulating exposure to the risk of *failure*. Specifically, these are capital requirements required of these institutions with the aim of strengthening financial and structural stability. Another category of corporate risks concerns the "legal" ones which involve the company's failure to comply with regulations and which may be associated with fines and sanctions. This category includes (AA. VV., 2020),: *Defense and infringement of intellectual property; Third Party RC; RC Workers; RC Products; RC Administrators; Product recall; Environmental Responsibility; Corporate responsibility; Contractual errors vs. Supplier; Contractual errors for your customers; Errors in insurance coverage.*
Legal risk is defined as the probability of harming third parties through one's actions. This damage, in the legal meaning, manifests itself in the form of 'emerging damage' or 'loss of profit' depending on whether it is an economic loss suffered due to a business activity, or in a loss of earnings related to the same cause. In both hypotheses, the company is led to respond, due to indirect responsibility for the actions of its employees.
In legal terms we face a liability which can be *civil, criminal, administrative* depending on the nature of the rules violated. In the case of *civil liability* comes the obligation to compensate for the damage caused and the underlying behavior is classified as illicit *civil*[114]. Companies try to protect themselves from these liabilities by taking out coverage insurance. From the observation of insurance policies stipulated in recent years, it can be seen that, in addition to traditional risks, coverage tends to increasingly concern events associated with ESG responsibilities (FANNI M., 2000).

[113]Drawn up by the Basel Committee, made up of the G10 regulatory bodies in addition to Luxembourg, the Basel Accords are guidelines on the capital requirements of banks.
[114]Fanni M. (2000), *Manuale di finanza delle imprese*, Giuffrè, p.44.

The evolution of ESG commitments by companies has, in fact, introduced another form of risk, which is added to those mentioned and which has a legal nature, which is that associated with the failure to take care of the preventive aspects from which it can result in environmental or social damage. Below is an in-depth look at this aspect (FANNI M., 2000).

2.5.1 The historical evolution of the Risk Appetite Framework

Risk monitoring in the financial sector has been regulated since 2006 when Circular no. 263 dictated the basic rules on the *Risk Appetite Framework* (RAF)[115].

The object of the circular is risk management by banks (with the exclusion of financial institutions pursuant to 106 and 107 TUB)[116].

The Circular defines the RAF as the *business model* and *strategic plan* most suitable for supporting risks while respecting the specificities of banking activity.

In outlining a *business model* suitable for containing management risks, the RAF requires the bank to formulate a series of indicators useful for this purpose, including the *risk capacity (maximum risk that can be assumed)* which corresponds to the highest level of risk that can be assumed, avoiding exposing the asset. This level corresponds to that required by the regulatory aspects and all the other constraints necessary to guarantee stability to *shareholders* or imposed by the supervisory authority. The definition of the *risk* appetite (risk objective or risk propensity) is, however, functional to the level of risk that the bank assumes after having decided on its strategic objectives and the perimeters within which to contain the exposure.

In deciding this level, the bank must also make decisions on *risk tolerance* (*tolerance threshold*), which represents the maximum deviation from the *risk appetite* allowed. The existence of this deviance justifies the choice to define a *risk appetite* that is generally lower than that theoretically pursuable (FANNI M., 2000).

In deciding the tolerance threshold, the bank aims to ensure sufficient margins to operate, even if subjected to so-called *stress conditions,* within the maximum level of risk that can be assumed.

An assumption of risk that goes beyond the pre-established objective, in compliance with the tolerance threshold, involves the identification of actions aimed at bringing it back within the pre-established limits. In consideration of the fact that, at any time, the bank can provide a

[115]The Circular has undergone various updates in the following years
[116] This exclusion was foreseen until the reorganization of the supervisory regulations of financial institutions was completed.

risk profile (actual risk)[117], which can also be very different from the pre-established one, correct management of the activity requires that it be monitored at regular time intervals, during which any interventions aimed at directing the activity towards recovery can be planned of the desired levels.
The definition of risk objectives and their perimeters (classified by *business,* product and customer units and lines) outlines the *risks limits (risk limits)* which correspond to the pre-established levels beyond which it is not possible to go, providing an overall illustration of the potential exposures collected for homogeneous areas [118].
Within the framework of the attribution of responsibilities, in terms of risk management, primary responsibility is attributed to the individual corporate bodies, according to the specific functions, for which there will be various monitoring measures, each relating to the functional area. The body in charge of the control function will hold the responsibility of supervising the correctness and adequacy of the control systems introduced.
The risk control function collaborates in the detailed definition and concrete implementation of the RAF and the corresponding risk governance policies, through an adequate risk management process.
The bodies with risk control functions preside over the monitoring of the entire system after having participated in the definition of the RAF, the risk governance policies and the various phases that constitute the management process. Their specific function is also to set the limits associated with each fiction to the assumption of the various types of risk.
Both during the construction of the risk management system and in the monitoring phase, the control bodies are responsible for identifying the quantitative and qualitative parameters on which to set the reference architecture and the necessary adjustments. In particular, the control bodies[119]: “regularly verify the adequacy of the RAF; analytically define the metrics to be adopted for the assessment of operational risks, coordinating with the function that presides over regulatory compliance, with the Information Communication Technology (ICT) function and with the operational continuity function; provides preventive opinions regarding the consistency with the RAF of the most important operations" [120]. Internal *audit,* or internal

[117] Which coincides with the one actually assumed
[118]Gruppo di lavoro interbancario Risk Appetite (a cura di), Associazione Bancaria Italiana, Bain&Company, *Il processo di definizione e gestione del risk appetite nelle banche italiane*, Bancaria, Mensile dell’Associazione Bancaria Italiana, anno 67, n.6, Giugno 2011.
[119]Capone D., De Polis S. (2014). *Cultura aziendale e gestione dei rischi. Le recenti indicazioni del Financial Stability Board*. Mensile dell’Associazione Bancaria Italiana. Disponibile in: https://bancaria.it/livello-2/archivio-sommari/gli-ultimi-sommari-di-bancaria/bancaria-settembre-2014/cultura-aziendale-e-gestione-dei-rischi-le-recenti-indicazioni-del-financial-stability-board/
[120] Acquiring, where useful, the opinion of other functions involved in the risk management process

audit activity is aimed, on the one hand, at monitoring the performance of operations and the evolution of risks and, on the other, at evaluating the adequacy, functionality, completeness and degree of reliability of the system architecture and other components relating to internal controls (CAPONE D., DE POLIS S., 2014). In the exercise of its functions, *internal audit* promotes the attention of corporate bodies on possible improvements that can be made to the risk management process put in place as well as to the tools for measuring and controlling the same. The risk objectives, tolerance thresholds and risk limits are usually expressed in terms of:

a) values expressing capital or flows exposed to possible risks[121];

b) adequacy of capital ratios;

c) liquidity levels.

With reference to risks that are difficult to quantify[122], the RAF dictates some indications capable of guiding the definition and updating of the processes and safeguards of the *internal audit system.*

2.6 ESG Risk Analysis

The diffusion and affirmation of ESG principles has transformed the attention towards environmental, social and financial aspects *governance* in real commitments which, as we have seen, have a matrix strongly focused on *brand reputation.* These commitments also rise to real obligations, considering the existence of regulatory measures aimed at regulating production activities, guiding them towards the adoption of processes and practices that do not harm the environment, social balances and, increasingly attentive to the distribution of ESG *oriented functions* within *governance*. The importance of these issues is evident in the subjecting of production activities to civil and criminal liability, identifying the figure of the administrators as the subjects responsible for the damage caused (CAPONE D., DE POLIS S., 2014).

Today, litigation concerning the damage caused in the ESG context by companies is assuming ever-increasing proportions, also in consideration of the spread of activist movements that monitor these aspects, promoting awareness on the topic and reporting cases[123].

[121] VaR, *expected* shortfall, etc.
[122] Think about the strategic one, the reputational one or the *compliance one*
[123] Assiteca, 2022

It is possible to observe an increase in complaints from multinationals accused of having contributed to climate change and administrators are being held accountable for these crimes. The companies most involved are those that operate in the energy sector and, consequently, those active in the financial sector that supports them (ASSITECA, 2022). The country in which such disputes appear to be most widespread is the United States where, in addition to environmental issues, many cases involve accusations of racial discrimination or social damage.

The corporate doctrine has explored the implications of the litigation concerning ESG issues, highlighting the reputational impacts on the public, as well as the financial ones on the accused companies, which are required to pay compensation payments that are often very large.

Brand *reputation has fundamental importance as it is linked to the consideration that the company has among the public and reflects the past commitment that it has made in terms of the validity of the product, the practices adopted, the services to customers,* etc. News involving it, connoting conduct that is foreign to generally shared ethical logic, may constitute the basis for an image crisis with negative commercial consequences.

The term "buycottaggio" was coined for the purpose of illustrating the practice of consumers damaging a company by spreading bad brand *publicity*[124].

In general, entrepreneurial conduct that leads to the use of child labor, that causes damage to the environment, that favors less safe production processes, etc., if in the public domain, can be the precursor to significant losses in turnover (think of the case Mc Donald's , a brand accused of having damaged the Amazon forest in order to create pastures for its cattle, the spread of the news has pigeonholed the *brand* in the collective imagination with a negative meaning, as a symbol of the arrogance of capitalism). The attention to ESG issues by companies does not only reflect reputational concerns but also the obligations to which they are subject. In the financial sector, in Europe, *Sustainable Finance Disclosure Regulation* (SFDR) of the EU has helped to strengthen the accountability of institutions by imposing binding ESG disclosure requirements on private banks, asset managers and other entities operating in financial markets (CAVALIERE G., DE VEGLIA M. (2018).

Among the ongoing regulatory work, the EU is designing regulatory solutions aimed at companies aimed at making *due diligence mandatory* [125]regarding the reporting of the entire

[124] Cavaliere G., De Veglia M. (2018), *Gestione del brand e della reputazione. Cura in modo efficace il tuo brand e migliora la reputazione della tua azienda*, ed. Fraccovio

[125] Due *diligence represents the activity aimed at examining reported data in* depth in order to verify its reliability. Due *diligence is a thorough investigation and evaluation process that is conducted prior to a* significant business or financial transaction, such as a merger, acquisition, partnership or investment. The main purpose of *due*

procurement process, highlighting the aspects relating to *protection of human rights and the environment*[126].

It is interesting to observe how the companies most sensitive to the topic have already taken steps to report their commitments in this regard to their public. In fact, when consulting company websites, it is quite common to find information on these topics, aimed at illustrating commitments undertaken in the ESG field.

Company directors are the key figures, called to identify ESG challenges, declaring their lines of action and accepting the resulting responsibilities (CAVALIERE G., DE VEGLIA M., 2018).

From a legal point of view, directors assume a fiduciary duty towards the public and any evasion of this obligation is linked to specific legally established responsibilities.

Given the above, the responsibility of directors, in terms of ESG, has become the subject of debate within the Board of Directors, with *a focus* on the form of insurance to be adopted to prevent any disputes from causing excessive damage.

Observing the dynamics in progress, the insurance market tends to choose the premium to submit considering the levels of internal risk management and the preservation measures adopted. In this sense, the corporate initiatives aimed at identifying solutions to reduce or limit emissions of greenhouse gases, or any other pollutants, as well as the internal protocol for the adoption of strategies that can have social impacts, also take on the function of providing a information support for insurance. In this context, the Board of Directors takes on a central role in making the right decisions on the matter, promoting measures aimed at ensuring reporting/transparency as well as reliable climate-related *due diligence* (CAVALIERE G., DE VEGLIA M., 2018).

Empirical data show a growth in insurance signed by the following figures: the President and the Vice-President; the Board of Directors; the managers and the auditors; the de facto

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diligence is to examine in detail all relevant aspects of the transaction in question, in order to identify risks, opportunities, issues or information crucial to making an informed decision.

Typically, *due diligence* involves the analysis of a number of factors, including: Legal aspects: Review of contracts, pending litigation, intellectual property issues, licensing, and regulatory compliance.; Financial Aspects: Review of financial statements, cash flows, debts, accounts payable, accounts receivable, and other relevant financial information; Operational Aspects: Analysis of business processes, human resources, supply chain, technology, and other key areas of business operations; Commercial aspects: Evaluation of the market, competition, customers, suppliers, and other factors that may influence business prospects; Environmental and social aspects: Examination of the environmental impacts of business operations, compliance with environmental regulations, social policies, and other ethical and social considerations. Due *diligence can be conducted by different parties involved in the transaction,* including buyers, investors, financial institutions, legal advisors and financial advisors. It is essential to reduce risks and maximize opportunities associated with a deal, providing a complete overview of the business situation being analyzed.

[126] In the UK, the Environment Agency has put forward a proposal to link fines for waste crime to turnover.

Directors; the members of the Supervisory Board. Poor *sustainability performances* or the underestimated representation of risks in communications and official documents are examples of hypotheses from which an increase in insurance premiums can derive. The insurance companies, for their part, have prepared questionnaires aimed at analyzing the commitment to respecting biodiversity, the representation of the supply chain, and the distribution of responsibilities among the governance *bodies*[127]. In addition to improving its profile, adapting to legislative requirements on ESG matters therefore helps the company avoid costly fines and lawsuits and pay less expensive insurance premiums (CAVALIERE G., DE VEGLIA M., 2018).

Additionally, several tools are emerging to provide screening methodologies for companies to identify and limit a company's ESG risk exposure. *MSCI* (*Morgan Stanley Capital International*), for example, is a company that has developed a model which indicates the hierarchy of the main ESG issues that need to be assessed in the insurance phase. Below is the diagram that illustrates them.

Fig. 8: ESG insurance indicators

Figure 1 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	37 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opp's in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opp's in Nutrition & Health
Governance	Corporate Governance*	Board* Pay*	Ownership* Accounting*
	Corporate Behavior	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

Source: MSCI ESG Ratings Methodology November 2020

[127] Elio S. (2018), *Merito creditizio più responsabile.ESG DATA Global Responsability Network* (2021, 30 Settembre). Global Innovation Lab for Climate Finance: 6 nuove soluzioni finanziarie per guidare l'azione per il clima. ESGDATA. Disponibile da https://esgdata.it/global-innovation-lab-for-climate-finance-6-nuove-soluzioni-finanziarie-per-guidare-lazione-per-il-clima/

Environment, Social and Governance assumptions and the damage associated with a lack of attention to these issues (MSCI ESG Ratings Methodology November 2020).
In light of what has been described, the Boards of Directors of medium-large companies are introducing procedures that aim to limit the risks associated with the occurrence of damage in the ESG area, *first and foremost,* by developing a *strategy* consistent with the global vision and mission. of the company [128]. A non-negligible aspect is, in fact, that of creating the conditions for the integration of Sustainability into *business.*
In this context, it is appropriate to identify the priorities on which to focus, with a view to optimizing the use of resources.
A further area on which we focus is the expansion of the knowledge and skills of the Board of Directors and senior managers on ESG issues, which is achieved through the adoption of proactive management based on continuous dialogue and training. In this way, a systematic approach is created aimed at identifying and developing procedures for the introduction and monitoring of safeguards aimed at preventing the occurrence of hypotheses of damage linked to events detrimental to ESG aspects in *business operations*[129]. What has been described requires the determination of the *key performance indicators* of the objectives useful for tracing the functioning of the system which refer to the need for impact monitoring functions. To this end, all corporate communication channels must be activated in order to achieve what has been described by involving the *corporate culture* with a view to identifying possible critical issues and suggesting solutions (ELIO S., 2018).
ESG reports and data must be produced aimed at strengthening *engagement* with *stakeholders.*

2.7 Obstacles to the development of sustainable finance

In addition to the regulatory measures, described in the previous pages, the development of sustainable finance has also contributed to the adoption of ESG measures in the corporate environment, where it has included them among the evaluation parameters of companies.
An important step in this direction was taken in 2021, when the *Global Innovation Lab for Climate Finance* (known as the Lab) brought together public and private institutions with the

[128]Sustainable Finance Forum, 2019.
[129]Cavaliere G., De Veglia M. (2018), op. cit.

aim of developing and supporting innovative financial instruments aimed at hindering climate change, especially in Developing countries.

The Lab is a joint venture of the US Department of State, the UK Department of Energy and Climate Change (DECC) and the German Federal Ministry for the Environment, Nature Conservation and Building and Nuclear Safety (BMUB, who have created a *partnership* with Denmark, France, Japan, Holland and Norway and with private institutions (including Deutsche Bank, Bank of America, Allianz, Willis Group, Merryl Linch)[130].

It is a collaboration between the public and private sectors and has attracted the attention of the world's leading *climate experts finance*. The program builds on expertise acquired in different regions of the world to develop new, easily implementable financial instruments. During the Lab's work, all the obstacles to sustainable finance were highlighted, seeking specific solutions to deal with them.

During the work it emerged that the lack of reliable impact assessment metrics to which investors can refer in their risk assessments currently constitutes the main problem for the correct diffusion of sustainable finance. Even if the reports that companies are required to provide are increasingly rigorous and analytical, experts complain about their low credibility, as they are often full of information that is difficult to verify, and results achieved are measured in an excessively discretionary manner. Furthermore, no matter how accurate the assessments of the impacts achieved by companies may be, judging the success of an ESG intervention on the basis of quantitative indicators alone does not seem appropriate.

Furthermore, we often observe the setting of ESG objectives which, in fact, do not have a dimension that would lead to the aim of reducing negative impacts being deemed to have been achieved, as they are excessively small and limited. Furthermore, there is no shortage of cases in which companies' ESG objectives appear inappropriate for the environment in which they operate. These dissonances with respect to the objectives pursued have seen the EBA *(European Banking Authority)* launch a consultation aimed at adopting clearer regulations in relation to the *governance* and supervision of credit institutions and investment firms dealing with commitments of ESG. In the Action Plan to finance sustainable growth, in 2020, the EBA presented a Digital Finance Package, in which it stimulates responsible innovation and *distributed ledger technologies* (DLT), an IT methodology, aimed at guaranteeing financial stability and protecting investors by also providing more information regarding the ESG policies undertaken. Furthermore, the project provides a surveillance framework aimed at

[130] ESG DATA Global Responsibility Network, 2021

establishing a dialogue with companies also from a consultancy perspective[131]. In October 2021, Borsa Italiana also organized the *Italian Sustainability Week, a forum in which,* among other issues, the critical issues of sustainable finance were discussed. The working group has identified four areas in which, in its opinion, it is necessary to evaluate interventions to improve ESG solutions, such as the determination of organizational criteria within the company aimed at eliminating emissions, reporting the use of water resources, reducing of gender inequalities in the area of wages (*gender pay gap).*

With regard to this last aspect, it is believed that the absence of equity in the remuneration area has a negative impact on the values of a modern and justice-inspired society.

A further critical issue encountered concerns the low attention of the *retail public* called upon to choose how to invest their savings. In this sense, raising awareness of the topic, also with a view to understanding the financial advantages associated with such investments, would be desirable. Sanctions and reputational consequences, as we have seen, have economic implications and this should place companies attentive to ESG assumptions in relief compared to others. The main obstacle to the affirmation of sustainable finance remains the lack of a homogeneous system of reporting and evaluation of ESG impacts, which creates conditions that see investments being made in sectors that are not always deserving. Furthermore, the increasingly widespread phenomenon of *greenwashing* contributes to making the companies that adopt it unreliable and the entire ESG investment policy unconvincing. Despite these problems, financial institutions offer sustainable finance products accompanied by a presentation rich in valorisation of the advantages (ZETZSCHE D.A., ANNUNZIATA, F., ARNER, D.W. & BUCKLEY, R.P., 2020).

Among the advantages profiled there is the possibility of obtaining long-term financial performance, sustainable investments can, in fact, offer competitive returns over time as companies that adopt sustainable practices tend to be more resilient and innovative, reducing the risks associated with events external such as regulatory changes or social pressures.

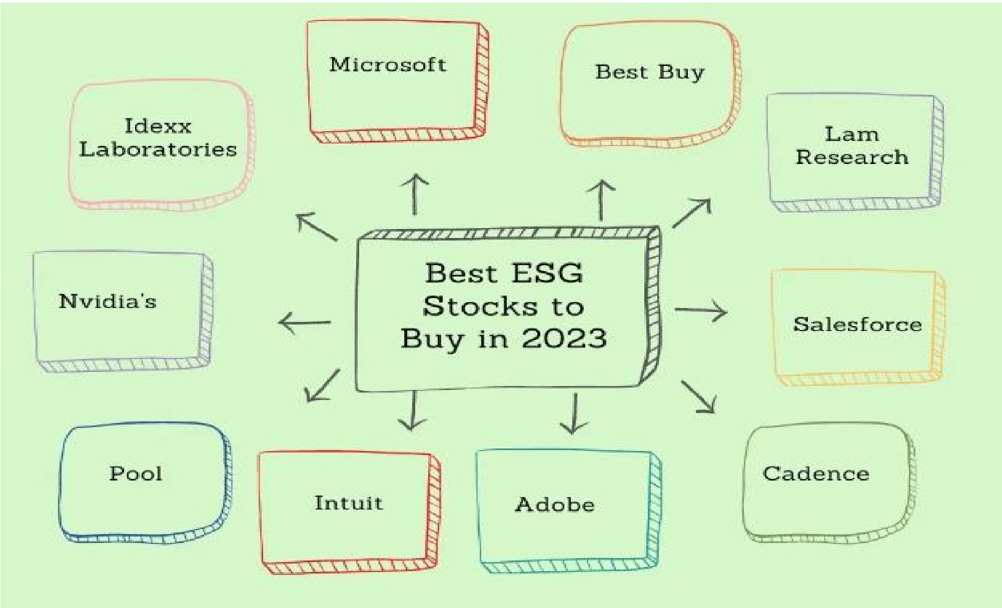
Sustainable investing aims to integrate environmental, social and governance (ESG) criteria into financial analysis, which helps investors identify and mitigate risks associated with issues such as climate change, social controversies and poor corporate management. Investing in projects that have a positive impact on society and the environment can offer greater personal

[131] Zetzsche D.A., Annunziata, F., Arner, D.W. & Buckley, R.P. (2020), The Markets in Crypto-Assets Regulation (MICA) and the EU Digital Finance Strategy. SSRN Electronic Journal. Advance publication online. https://doi.org/10.2139/ssrn.3725395

satisfaction than traditional investments, knowing that you are contributing to the betterment of the world can be rewarding (ZETZSCHE D.A., ANNUNZIATA, F., ARNER, D.W. & BUCKLEY, R.P., 2020).

Companies that adopt sustainable practices tend to be more attractive to talent. Investors who back these companies can benefit from their ability to attract and retain qualified personnel, thereby contributing to the company’s long-term growth. Furthermore, more and more consumers and investors are interested in environmental and social issues. Investing in sustainable financial products can respond to this growing demand, enabling companies to meet customer expectations and strengthen their brand reputation. Sustainable investing helps finance projects and companies that promote green practices and the transition to a low-carbon economy which can help reduce the overall environmental impact of economic activities. Investing in companies with strong ESG policies can help you avoid additional costs associated with fines, penalties or lawsuits resulting from unsustainable or irresponsible behavior, while benefiting in terms of returns. The sustainable finance sector offers, among other things, a wide range of products and investment opportunities, including mutual funds, green bonds, shares of sustainable companies and much more. These options allow investors to diversify their portfolio and access growth sectors. In the financial sector, the practice of publishing proposals to purchase green securities deemed to be the best has spread. Below is the most recent rating of the recommended titles.

Fig.9: Recommended ESG stocks in 2023



Source: https://sigmaearth.com/it/I-10-best-ESG-stocks-da-acquistare-nel-2024/

Before diving into the more specific financial aspects, I have prepared a table that summarizes the topics covered in this chapter.

	Objectives	Impacts on banks
“ESG investing”	1 Social responsible investments which include ethical investments; Impact investing	√
Sustainable Responsible investment (SRI)	2 Investment that takes into account environmental, social and corporate governance (ESG) criteria.	√
The ESG score and rating	3 Certifies the solidity of an issuer, a security or a fund from the point of view of commitment in the environmental, social and governance fields.	√
“Non-financial” declarations and the risk of Greenwashing	4 Statements that embrace a company's ESG commitments. Statements that simulate ESG attention is Greenwashing.	√
ESG Risk Analysis	5 Analysis of a company's ESG critical issues	√

As can be seen from the table, all the aspects covered in the doctrine have an impact on the sustainability of banks. This will allow it to be verified when analyzing the data from the illimity bank.

CHAPTER III

SUSTAINABILITY IN THE BANKING SECTOR

Premise

The approval and publication, which took place on 16 December 2022, in the EU Official Journal of Directive no falls within the scope of the European Green Deal 2022/2464 regarding corporate sustainability reporting (Corporate Sustainability Reporting Directive - CSRD). The CSRD thus modifies Directive 2013/34/EU, concerning the obligation to communicate non-financial information for large companies. The European Regulation 2019/2088 (SFDR) came into force on 10 March 2021.

The Sustainable Finance Disclosure Regulation (SFDR) is a regulation introduced by the European Union (EU) aimed at increasing transparency in the financial services sector regarding sustainability. The SFDR is part of the EU's broader initiative to direct capital towards sustainable investments, mitigate greenwashing, and ensure that financial market participants provide clear and comparable information about the sustainability of their products and services. This entails an obligation for all banks to report their responsibility in terms of CSR.

Corporate ESG commitments are becoming increasingly widespread among both listed and unlisted companies. While the former are required to provide answers to the public, also by virtue of the legislation that requires it and the interest in seeing their securities be selected by investment funds, the smaller entities, which pursue social, environmental and governance commitments, pay attention to ESG rules as they are interested in providing a positive public image. The *brand image* is enhanced both in non-financial information, provided in official documents (financial statements, social balance sheet, etc.) and in various relational occasions, such as public events or on the websites of many companies (ZETZSCHE D.A., ANNUNZIATA, F., ARNER, D.W. & BUCKLEY, R.P., 2020).

With respect to this last aspect, it is possible to observe that even medium-sized companies offer information that makes public their policy oriented towards the affirmation of ESG objectives, in this way, in fact, these companies are able to offer an image that can have repercussions, especially on customers and suppliers. In the banking sector, in which large companies operate, ESG commitments are also mandatory by virtue of some principles introduced and adhered to by most credit institutions. Before analyzing them, it is useful to analyze the trend that sustainable finance has had in recent years and then focus on the commitments undertaken by banks in ESG terms.

3.1 The performances of sustainable finance

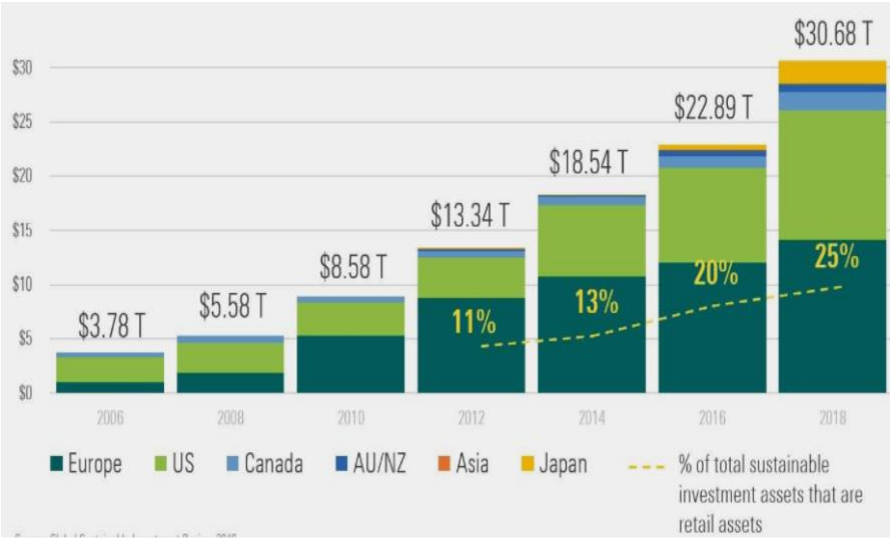
In recent years, sustainable investments, understood in the sense offered in the previous pages, show a growth trend, being foreseen by many sectors. This growth did not change with the advent of the pandemic crisis. Below is an illustration of the trend and performance of ESG funds divided into the pre- and post-pandemic period.

3.1.1 The pre-pandemic trend

At a global level, data published in 2019, i.e. in the pre-pandemic phase, estimate the amount of ESG (Global Sustainable investment review) investments to be over 30.7 trillion dollars. What emerges is an accelerated growth, particularly incisive in recent years, just think that, in 2016, sustainable assets were less than 23 thousand billion, which confirms that, in just two years, there was an increase of 34%. Europe is the European continent which, on a global level, holds the largest share of assets: 14.1 trillion dollars, having recorded a growth (between 2016 and 2018) of 11%, compared to 12 trillion of the USA, a country which, although lagging behind Europe, had higher growth rates in the two-year period considered, equal to +38% [132]. The following figure shows the size of the trend from 2006 to 2018, highlighting that sustainable financial commitment is involving all continents, also co-opting countries that, traditionally, have always conducted an economic policy that paid little attention to aspects linked to environmental impacts, such as Japan and the United States (DARBYSHIRE M., 2020).

[132] Darbyshire M. (2020), *ESG funds continue to outperform wider markets,* Financial Times, p.12

Fig. 10: The trend of sustainable investments (2006-2018)



Source: Global sustainable investment review

According to other estimates[133]concerning[134] European funds and ETFs, based on sustainable securities, as of 30 June 2019, they would have corresponded to assets of 595 billion euros[135]. In the first half of 2019 alone, sustainable commitment increased by 20.5%, in addition to the increases in assets of the entire asset management industry (which amounted to +7.7% in the same period)[136].

One of the reasons for this success lies in the positive *performances* that the EFT Funds have guaranteed in the past. Below is the figure that illustrates the proportions between funds that have shown a positive trend and those that, on the contrary, have recorded negative results.

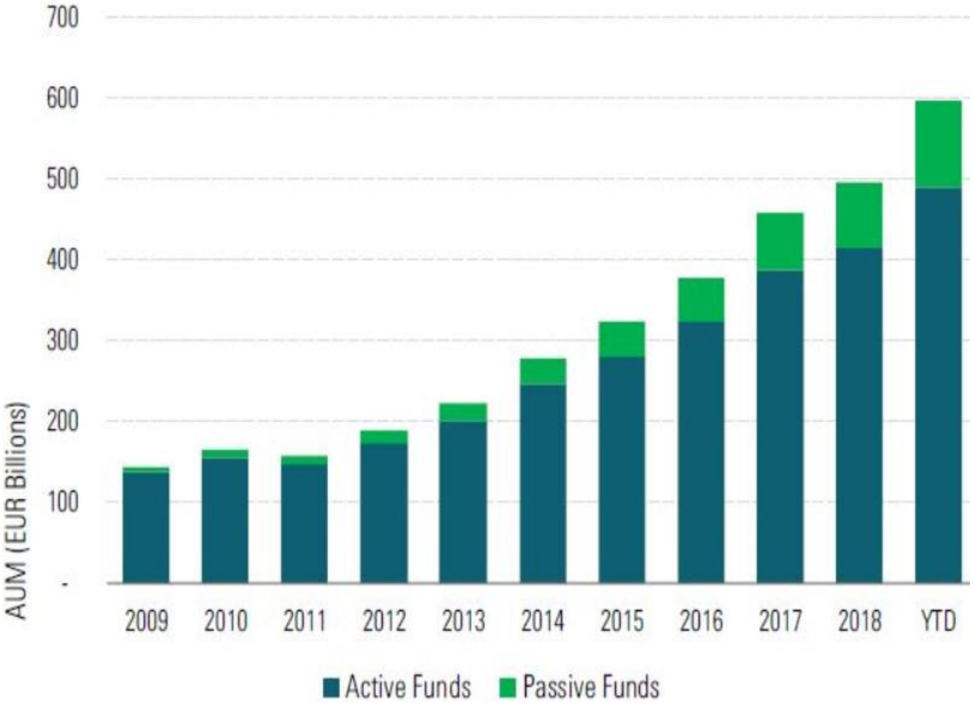
[133] Made by financial services company Morningstar

[134] ETFs are exchange traded funds, which are characterized by the limited liability of the members and by being linked to shares already in circulation.

[135] Source: Morningstar

[136] Darbyshire M. (2020), *ESG funds continue to outperform wider market*, cit., p.15

Fig. 11: Active/passive sustainable funds in Europe



Source: Morningstar direct data

Active funds are characterized by being composed of the same manager who tends to monitor them on a daily basis with the aim of obtaining a *performance* superior to that achieved by the reference *benchmark,* while passive funds, on the other hand, are not particularly followed (mostly set the objective of achieving the performance of the sector's reference benchmark).

In 2018, 25% of the entire assets invested in sustainable funds were retail, recording an 11% growth compared to the values recorded six years earlier[137]. Among the reasons that explain this success, it is also believed that there is the growing awareness of savers on the issue of sustainability, in particular climate change.

Retail sustainable funds are financial products that allow retail investors (i.e. non-professional or private investors) to invest in portfolios made up of assets selected according to environmental, social and governance sustainability criteria (ESG - Environmental, Social, and Governance). These funds aim to generate financial returns for investors, while promoting ethical and sustainable business practices.

[137] Global sustainable investment review, I, 2020

The funds select companies and stocks based on how they meet sustainability criteria. This can include reducing carbon emissions, respecting human rights, transparency in corporate governance, etc. and they often offer greater transparency on their investment practices and provide detailed reporting on the social and environmental impact of their investments. Like other funds, sustainable funds can offer diversification, investing across a variety of sectors and asset classes to reduce overall risk. Additionally, they focus on long-term goals, seeking to support companies that have sustainable plans for the future (GLOBAL SUSTAINABLE INVESTMENT REVIEW, 2020). Sustainable investments do not necessarily compromise financial returns. Numerous studies have shown that companies with good ESG practices can have comparable or superior financial performance to those without them[138].

In Europe, the SFDR (Sustainable Finance Disclosure Regulation) requires that fund managers provide transparency on how they integrate sustainability factors into their decision-making processes and on the sustainability features of their financial products[139].

In 2019, the Forum for Sustainable Finance and BVA Doxa interviewed a sample of savers with the aim of tracing their position on the issue of climate change, from which it emerged that more than 80% declared they wanted to be informed about the nature of their investments, or the presence in the fund portfolios of companies that pay attention to these aspects (50% of those interviewed declared that they considered the information received in this regard excessively lacking)[140].

The investigation also highlighted that misinformation persists on these issues, so those who showed little attention would have done so due to an inefficiency of information on the part of the fund promoters. A gap also emerged between those who expressed interest in finance issues linked to ESG and those who purchased these instruments, which would confirm the existence of a difficulty in communication between promoters and savers.

Although in 2019 63% of sustainable funds ranked among the highest-end returns, in some cases it was found that there is a belief that these funds do not have the same *performances* as traditional ones. The percentage of interviewees who considered the ESG policy declared by the companies to be inconsistent with the truth was quite high (Greenwashing phenomenon).

Before the pandemic, in 2019, in Europe, the debuts had exceeded those of 2018: at the end of September there were 252 new sustainable funds compared to the 311 recorded in all of 2018 (DAMODARAN A., 2020).

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[138] Darbyshire M. (2020), *ESG funds continue to outperform wider market*, cit., p.18

[139] Damodaran A. (2020), *Sounding good or doing good: a skeptical look at ESG*, EDR, p. 29

[140] Damodaran A. (2020), *Sounding good or doing good: a skeptical look at ESG*, cit., p. 34.

3.1.2 The post-pandemic trend

The data relating to the *performances* recorded in the first quarter of 2021, in the midst of the pandemic crisis, show that 51% of direct flows towards European mutual investment funds and ETFs were directed to activities attentive to environmental, social and governance *(* ESG) strategies). This is 120 billion euros, a sum that represents 18% more than the values recorded at the end of 2020. Focusing on the asset values, there is an increase of 17.5%, which showed a value equal to 1.3 thousand billion euros[141]. The values described confirm the consolidated diffusion of sustainable funds, which were superior to traditional ones, as had already happened in the January-March 2020 period, with the start of the pandemic crisis [142]. In the first quarter of 2021, unlike the collection of traditional funds, ESG funds recorded positive net collection. Analyzing the contents of the ESG funds, it is highlighted that the "equity" ones prevailed over all the others (resulting in 75 billion euros of net subscriptions) and represented 32% of the total collection while the "bond" ESG funds , attracted 28 billion euros, finally the "balanced" funds (bonds and shares) 4.8 billion. Proportionally, the value of these funds corresponds to 44% more than the collection achieved by traditional funds. This is data that highlights a notable improvement in the sustainable fundraising trend following the pandemic crisis (MORNINGSTAR SUSTAINABLE FUNDS REPORT -2021).

Among the possible explanations is the growing interest that investors reserve for environmental and social problems also thanks to the lesson received, initially, from the pandemic which highlighted the importance of more resilient and respectful corporate management models for all stakeholders, not only those of direct *shareholders* .

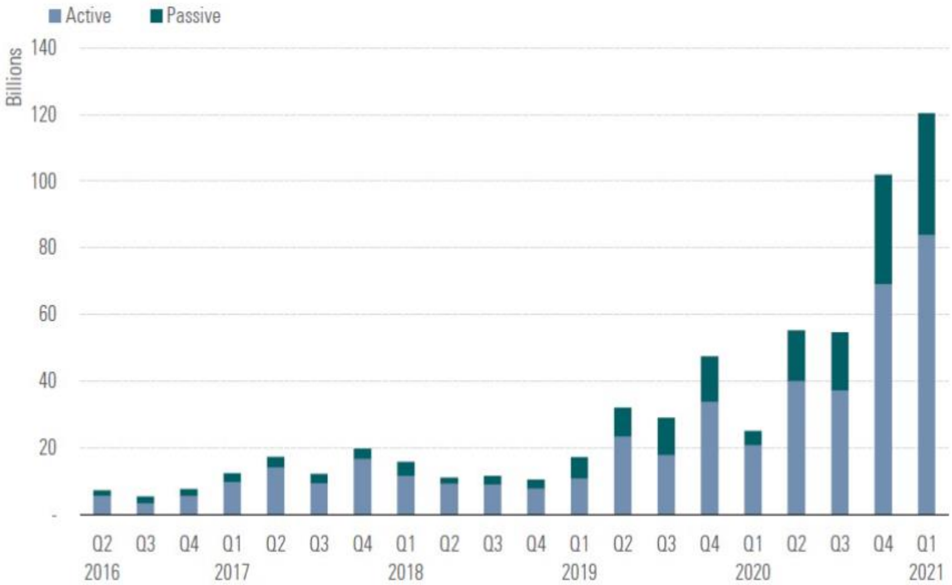
To explain the favorable *trend* , which continued in the two-year period 2021-2023, the increase in the supply of these *assets must also be considered* . In the first quarter of 2022, 111 sustainable instruments were issued in the various European countries [143], which were added to the 532 issued in 2021[144]. The "equity" funds increased the most (they amounted to 53) but the other types of funds, bond and balanced, also increased. With the consolidation of the *Action Plan for Sustainable Finance* which, as mentioned, sees the European Commission directing capital towards ESG-type activities and the elimination of net carbon emissions by

[141] Morningstar Sustainable Funds Report -2021, p. 44
[142] Morningstar Sustainable Funds Report -2021, p. 46

[143] Data as of March 23, 2022.
[144] According to Morningstar estimates, there are a total of 3,444.

2050, this *trend is expected to* continue (MORNINGSTAR SUSTAINABLE FUNDS REPORT -2021). The positive expectations also refer to the cultural diffusion of environmentally relevant topics. The following figure shows the *trend* relating to flows into sustainable funds in the period 2016-2021, highlighting the peak reached following the advent of the pandemic crisis.

Fig. 12 : Flows in sustainable European funds and ETFs in the 1st quarter of 2021 (data expressed in billions of euros)

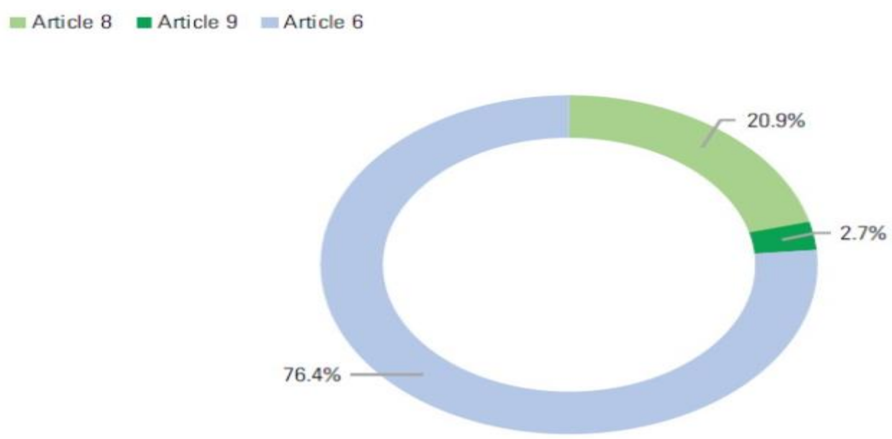


Source: Morningstar direct data

The qualitative *focus* on the Funds issued highlights that among the top ten that raised the largest sums in the quarter in question, six are oriented towards the theme of climate change and the energy transition. Among the best-known funds at European level are: *"BGF Sustainable Energy Fund, Pictet - Clean Energy and Nordea 1- Pictet - Global Environmental opportunities, Global Climate and Environmental Fund and Bnp Paribas Energy Transition".* During the mapping work of the various Funds based on the European SFDR (*Sustainable finance disclosure regulation*) which regulates disclosure on sustainability in financial services,[145] 20.9% of the Funds were classified by the managers as falling within article 8 provided for by the SFDR (which refers to the "promotion of environmental or social initiatives"), while only 2.7% is associated with article 9 (i.e. holding "a sustainable investment objective") (MORNINGSTAR SUSTAINABLE FUNDS REPORT -2021).

[145] Which, in 2023, referred to approximately 52% of the entire Fund universe

Fig.13: Classification of Funds



Source: Morningstar direct data

Articles 3 and 6 provided for by the SFDR oblige the "participants" and "consultants" to make public, in the pre-contractual documentation, any sustainability risks, or negative impacts, even just potential, on the value of the investment and it appears that 76.4% of the funds analyzed complied[146]. In 2024, sustainable investment funds are reflecting a growing global commitment to environmental, social and *governance* (ESG) sustainability[147]. Transparency in sustainable funds is improving thanks to new regulations and standards, such as the EU Action Plan for Sustainable Finance which is making it easier for investors to understand the impact of their investment choices, encouraging a greater inflow of capital towards sustainable projects[148]. The push towards zero carbon emissions is a major trend. Initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ) are starting to reap rewards, mobilizing significant funding for the transition to a low-carbon economy, leading to a significant increase in investment in renewable energy and clean technologies to achieve these objectives[149]. GFANZ is a global alliance of financial institutions committed to supporting the goal of achieving net zero greenhouse gas emissions by 2050. Founded in April 2021, the initiative was launched ahead of the United Nations Climate Change Conference of 2021

[146] According to a *comply or explain* approach

[147] The initiative aims to profoundly influence how capital is allocated globally, promoting sustainable and responsible investment, however, it also faces significant challenges, such as harmonizing emissions measurement metrics and managing the potential economic repercussions of the transition towards renewable energy.

[148] Bluerating.com.

[149] Kumar S. (2022), *A quest for sustainium (sustainability premium): review of sustainable bonds*, Academy of Accounting and Financial Studies Journal, 26, p. 11

(COP26), held in Glasgow, Scotland[150]. GFANZ's core objective is to mobilize financial resources to support the transition to a zero-carbon economy and sees member institutions commit to aligning their investment and financing portfolios with the goal of net-zero emissions by 2050. The alliance includes banks, insurers, asset managers and other financial players, including the Net-Zero Banking Alliance (NZBA), the Net-Zero Asset Owner Alliance (NZAOA) and the Net Zero Asset Managers Initiative (NZAMI). GFANZ members must set short-term interim targets (for example, for 2030) and must publish annual reports on their progress. Additionally, they must use scientific guidelines to set and achieve their emissions reduction targets. GFANZ is supported by several organisations, including the Network for Greening the Financial System (NGFS) and Climate Action 100+ and also owes its prestige to its president, Mark Carney, former governor of the Bank of England and special envoy of the Nations Unite for climate action and finance. These initiatives are strengthening the commitments of the world of finance as is evident from some institutional initiatives, such as the "Sustainable Investments 4.0" program proposed in Italy and financed by the National Recovery and Resilience Plan (PNRR), which offers tax breaks for small and medium-sized businesses that invest in sustainable projects, encouraging the adoption of innovative technologies and improvements in energy efficiency[151]. Among the objectives pursued by the most recent funds, in addition to reducing emissions, we observe the protection of biodiversity which is becoming a key component of sustainable investments (KUMAR S., 2022). The trends of 2024 confirm that the sustainable investment sector is evolving, with a growing focus on transparency, decarbonisation, technological innovation, and social and environmental responsibility[152].

3.2 The sustainability indices of the funds

When composing an ESG portfolio it is necessary to have an evaluation tool capable of calculating the level of sustainability of a company's securities based on the specific policies pursued. This need arises from the need to provide an illustration of the risk linked to events detrimental to the principles of sustainability (ONLINESIM.COM).

The indices used in these evaluations are various and differ from each other in the weighting used, or in the importance attributed to the individual actions undertaken by the issuing

[150] Ibidem
[151] OnlineSim.com
[152] OnlineSim.com

companies. Generally, these indices express the risk associated with specific activities that adopt ESG policies, for example, it can be calculated by focusing on the economic, social, environmental and governance implications *of* all the activities undertaken, or the indices can be obtained by comparing these values to the turnover achieved or the profit obtained. There are also indices obtained by evaluating the risk given by the relationship between ESG impacts and the number of employees of the company, or between individual strategies adopted (divided into environmental, social and *governance*) and company parameters (turnover, number of employees, Ebitda, Ebita etc.). There is no shortage of indices that evaluate the risk deriving from ESG implications which is unmanageable[153]. In these cases, this risk will take into account the *corporate governance structure* as a properly managed company is less likely to run into dangers of not adhering to ESG practices.

Furthermore, in the presence of efficient *governance*, i.e. one equipped with bodies equipped with functions suitable for promoting the transition towards more sustainable management, it is considered safer than one which does not have this prerogative and therefore the risks will have to take it into account. Other aspects subject to evaluation refer to the presence of good implementation of the legislation on "safety at work".

The introduction of "safety at work" among the ESG indices is rather recent and refers to the implications that arise from it, it is an indicator of sustainability for various reasons, which range from the social to the economic and environmental spheres. Safety at work guarantees, in fact, that workers operate in a safe environment, reducing the risk of accidents and occupational diseases and this directly contributes to the well-being and health of employees (a crucial aspect of social sustainability.

A safe work environment can reduce costs associated with accidents, including medical expenses, compensation, lost productivity and legal costs by making companies more economically sustainable, allowing them to reinvest resources more efficiently. Workers who feel safe and valued tend to be more productive and motivated, a safe working environment promotes a positive company climate, reducing absenteeism and improving the quality of work.

Workplace safety practices are often an integral part of corporate social responsibility policies, with companies that invest in safety demonstrating a commitment to the well-being of their employees and local communities, enhancing their reputation and attracting sustainability-minded customers and investors. Furthermore, compliance with workplace safety laws and

[153] These are indices that evaluate both the severity of the impacts and the capacity of *governance* to cope with them.

regulations is essential to avoid sanctions and penalties. Maintaining high security standards is also a way for companies to anticipate future regulatory changes, proving themselves proactive and resilient.

Among other things, many aspects of workplace safety intersect with environmental management, for example, the correct management of hazardous materials, the prevention of industrial accidents and the reduction of exposure to harmful substances contribute to reducing environmental impact. Furthermore, investing in workplace safety often stimulates technological and organizational innovation, companies must adopt new technologies and improve processes to ensure a safe environment, thus contributing to their evolution and long-term sustainability. It should also be noted that a safe working environment attentive to the well-being of employees is a key factor in retaining and attracting talent; in fact, people are more likely to work for companies that demonstrate a concrete commitment towards these issues[154]. In summary, safety at work is a fundamental element of sustainability because it creates a healthy and safe working environment, reduces costs, improves productivity and corporate reputation, and contributes to environmental sustainability. Investing in safety measures is therefore a step essential for any organization that wants to operate in a long-term sustainable manner (MCKINSEY, 2019).

Although there is versatility in the contents, all the indices have in common a sectoral pre-selection which provides for the inclusion of certain industries in an already excluding classification, for example, oil companies, although adequately supported by an efficient *governance,* having greater problems of polluting emissions are automatically associated with a higher impact level and, therefore, with a greater risk, almost always such as to exclude the broadcasters from the portfolio. The oil industries are not considered sustainable regardless of their commitment to sustainability, both in environmental and social terms as well as governance.

The combustion of fossil fuels such as oil is, in fact, one of the main sources of carbon dioxide (CO2) emissions and other greenhouse gases, which contribute to climate change while the extraction, refining and transport of oil can cause serious pollution, such as oil spills at sea and losses on the ground, which damage ecosystems and biodiversity. Extraction activities can lead to deforestation, destruction of natural habitats and loss of biodiversity. Oil is a finite and non-renewable resource, so reserves are limited and, once exhausted, cannot be regenerated in human times (MCKINSEY, 2019).

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[154]McKinsey (2019), *Five ways that ESG creates value*, McKinsey &Co, p. 3.

Dependence on non-renewable resources is not sustainable in the long term, as it leads to the exhaustion of available natural resources which prevents these realities from any positive assessment of sustainability which, as mentioned, refers to the failure to compromise resources for generations future[155].

In social terms, the presence of oil reserves can be a source of armed conflicts and political instability in many regions of the world, oil activities can have negative effects on local communities, such as forced displacement, loss of traditional livelihoods and health problems caused from pollution.

The oil market is also subject to strong price fluctuations, which can have destabilizing effects on the global economy, increasing unemployment and poverty, with serious social implications. Among other things, oil industries tend to focus on short-term profits rather than long-term investments in sustainable and renewable technologies, and is opposed to more sustainable energy alternatives, such as solar, wind and hydropower, which can provide energy without the same negative impacts associated with the use of oil (MCKINSEY, 2019). There is no doubt that only improvements in energy efficiency and the adoption of cleaner technologies can reduce oil demand and promote greater sustainability.

All these reasons contribute to the perception that oil industries are not sustainable and have a long-term negative impact on the environment and society, the transition towards more sustainable energy sources is seen as a necessity to address the challenges of climate change and to ensure a more sustainable future for future generations. This analysis serves to understand that the widespread indices are not applied to realities which, objectively, are the antipodes of the ESG rules. In general, the most impactful industries, in addition to the preparation of adequate measures to counter them, are required to have a very high potential income *performance*, that is, to nullify the negative aspects, allowing employment and income, especially in poor areas.

Among the best-known sustainability indices are:

ECPI, specialized in the development of thematic indices;

Morningstar, well known globally;

MSCI, FTSE Russell (provided by the London Stock Exchange Group);

S&P Global Ratings,

Refinitive

[155] McKinsey (2019), *Five ways that ESG creates value*, cit., p. 4.

Vigeo Eiris. Morningstar is a rating agency that found that, in 2023, the majority of sustainable funds (equal to 54% of the total) either kept their previous *rating unchanged* or gained one or more levels (equal to 23%) [156]. Overall, all the sectors that adopted socially responsible solutions received a rating that corresponded to a lower ESG risk (therefore receiving a higher rating). To get an idea of how a sustainability index is constructed, please refer to the following figure.

Fig. 14: Composition of the ESG index of a packaged food production business

		Punteggio di base	Peso	Punteggio ponderato
Sociale 40%	*Indicatori di preparazione*			
	Politica di libertà di associazione	100	2,36%	2,4
	Politica sulle discriminazioni	100	1,36%	1,4
	Gestione della supply chain	50	4,36%	2,2
	Indicatori di performance quantitativa			
	Tasso di turnover del personale	0	2,36%	0,0
	Prodotti di commercio equo e solidale	0	3,36%	0,0
	Indicatori di performance qualitativa			
	Incidenti tra i dipendenti	80	5%	4,0
	Incidenti nella supply chain	100	4%	4,0
	Incidenti tra i consumatori	80	2,99%	2,4
Ambientale 35%	*Indicatori di preparazione*			
	Politica ambientale	100	0,85%	0,8
	Programmi di gestione delle risorse idriche	50	1,7%	0,8
	Programmi di agricoltura sostenibile	100	2,13%	2,1
	Indicatori di informativa			
	Perimetro della rendicontazione sui gas serra	100	0,43%	0,4
	Indicatori di performance quantitativa			
	Intensità idrica	25	2,13%	0,5
	Trend di intensità di carbonio	75	0,43%	0,3
	Utilizzo di energia da fonti rinnovabili	0	0,43%	0,0
Governance 25%	*Indicatori di preparazione*			
	Politica anticorruzione	100	0,5%	0,5
	Obiettivi di performance ESG	100	1%	1,0
	Indipendenza del consiglio	70	1%	0,7
	Spese per attività di lobbying e politiche	0	0,75%	0,0

Source: Morningstar

The figure refers to an Italian industrial activity that produces packaged foods and evaluates individual aspects, each relating to the social, environmental and *governance profile*. Based on the results, a decision will be made whether to add its securities to the Sustainable Fund portfolio. The index in question decided to include preparation indicators, quantitative performance indicators and qualitative performance indicators in the "social" aspects. Among the preparedness indicators, corporate strategies aimed at supporting freedom of association, the strategy aimed at eliminating discrimination and supply *chain management have been*

[156] About 22% lost one or more levels.

included, with a view to evaluating its impacts. Among the indicators referring to quantitative *performance*, weight was given to "staff turnover" which, where high, provides indications of low attention to worker loyalty and the presence of "fair trade" products as input or output. Finally, among the qualitative *performance indicators*, "accidents at work", those linked to the *supply chain* and any accidents caused to consumers were considered[157] As regards the "environmental" aspect, the evaluation of environmental policy, water resource management programs and programs dedicated to sustainable agriculture have been included among the preparation indicators (MCKINSEY, 2019).

Transparency, i.e. the information made to the public, represented a further indicator that referred to reporting on greenhouse gases, i.e. the completeness of the information released regarding the release of Co2. Among the quantitative *performance indicators*, aspects relating to the intensity (i.e. uses) of water, carbon and the use of renewable energy were considered. Finally, the *governance assessment* took into account any initiatives aimed at censoring corrupt behaviour, the inclusion of sustainable *performance objectives* among business projects, the presence of independent directors on the Board of Directors and any unethical expenses.

Through the relationship between the results recorded and the turnover, weighted scores were obtained which offer an idea of the risk associated with this activity.

In recent years, many indicators are considering company policies relating to awards given to managers who have achieved sustainability objectives (MCKINSEY, 2019).

Linking managers' bonuses and salaries to the achievement of sustainability objectives is an increasingly widespread practice in companies that wish to integrate sustainability into their corporate strategy. This connection can be achieved through different mechanisms that associate incentives based on the initiatives undertaken by managers: Incentives Linked to Sustainability KPIs: Companies can define specific Key Performance Indicators (KPIs) for sustainability, such as the reduction of CO2 emissions, the saving energy, using recycled materials, or implementing ethical working practices. The achievement of these KPIs can be directly linked to managers' bonuses or salary increases; Incentives linked to Long-Term Compensation Plans: Long-term compensation plans may include sustainability objectives, for example, stock *options*[158] or other equity incentives may be linked to the company's sustainable performance over a period of several years, ensuring that managers are

[157] Mc Kinsey (2019), *Five ways that ESG creates value*, op. cit., p. 99.

[158] Stock options are options that allow those who own them to purchase shares at a set price even if they are listed at a higher price.

incentivized to pursue long-term objectives rather than short-term gains; Performance Rating Incentives: Managers' annual performance reviews may include sustainability criteria, which can be integrated into overall ratings and influence the determination of bonuses and salary increases; Specific Bonuses for Sustainability Projects: Companies can institute specific bonuses for completing sustainability projects, for example, a manager who leads a project to make a manufacturing plant more energy efficient could receive a bonus upon completion of the project; Transparency and Reporting Incentives: Adopting sustainability reporting standards, such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB) standards, can help companies monitor and report progress towards goals of sustainability. These reports can be used to evaluate managers' performance in relation to sustainability objectives; Incentives related to Stakeholder Engagement: Engaging stakeholders, such as investors, customers, and employees, can help define which sustainability objectives are most relevant to the company. This feedback can be used to set concrete, measurable goals for managers.

The effectiveness of these mechanisms depends on the clear definition of sustainability objectives, the transparency in their measurement and the alignment of incentives with the company's values and mission. Furthermore, it is important that goals are realistic and achievable to motivate managers to seriously engage in sustainability[159].

If a company demonstrates that it has adopted these principles, its sustainability indicators must take them into account.

3.3 The "Forms" of ESG Investment Funds

The portfolios relating to ESG products are presented to the public accompanied by a formula that highlights their structure. For example, the fund issued by Poste Italiane is called Poste ESG and, in indicating the *performances* achieved, compares them with a reference basket. These *performances* cannot be compared with products that are too different and in the case of Poste ESG, the comparison basket is composed as follows[160]:

- 30% Global Equity ESG Index (MSCI World ESG Leaders);
- 50% ESG Euro Bond Index (Bloomberg Barclays MSCI Euro Aggregate Sustainability);

[159] McKinsey (2019), *Five ways that ESG creates value*, cit., p. 4
[160] This is the reference called "benchmark" or optimal reference

- 20% US Bond ESG Index (Bloomberg Barclays MSCI US Aggregate Sustainability).

If Poste ESG had been compared with a traditional basket, no conclusions could be reached, given that they would be two very different products in terms of the objectives pursued. This comparison serves to indicate the degree of deviation of the fund's *performance* compared to the *benchmark* (MCKINSEY, 2019).

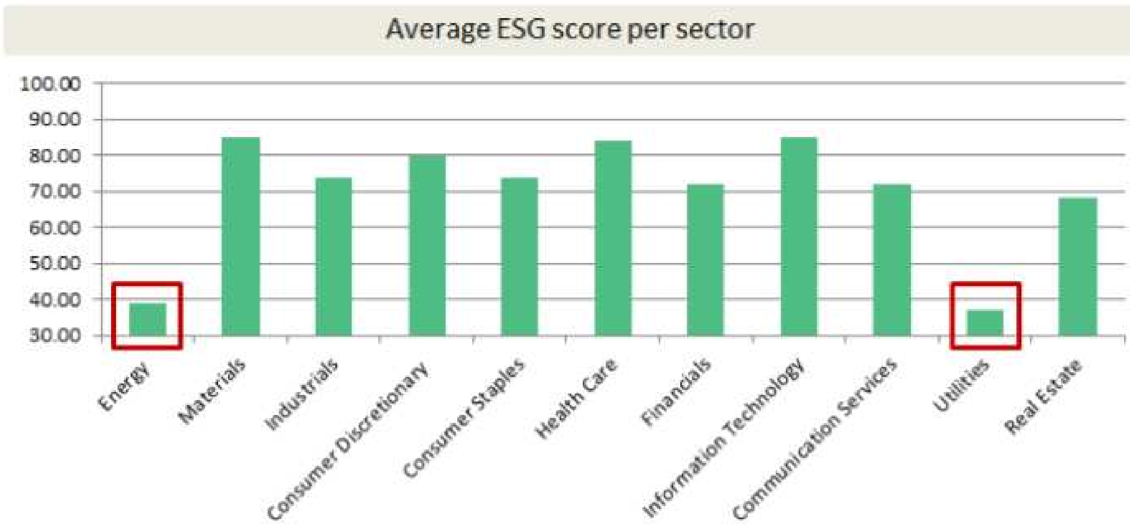
Benchmark fund performance refers to the return of an investment fund compared to a benchmark index. A benchmark is a financial index that represents a segment of the market and serves as a standard of comparison for evaluating the performance of a fund and can be a market index (for non-ESG funds, the S&P 500, the FTSE MIB, or any other index representing a specific sector or geographical area) which reflects the average return of a group of securities representative of the market or sector being monitored.

The fund's performance is evaluated relative to the benchmark to determine whether it has outperformed or underperformed relative to the reference market, thus, if an equity fund has a 10% return while its benchmark (for example, the S&P 500) has a by 8%, the fund outperformed the benchmark by 2%. In the case of ESG funds it is necessary to build a reference by choosing from the funds that are closest, in terms of characteristics, to the one to be compared. A low tracking error indicates that the fund follows the benchmark closely, while a high tracking error may indicate a greater discrepancy between the fund and the benchmark. Even for ESG funds it is possible to use alpha which measures the risk-adjusted performance of the fund compared to the benchmark, and indicates whether the fund manager has managed to generate added value, compared to the risk assumed by the fund. Beta, on the other hand, measures the fund's sensitivity to movements in the benchmark, with a beta of 1 indicating that the fund tends to move in perfect line with the benchmark. These measurements, born in non-ESG finance, are today perfectly suited to sustainable products, being used to illustrate the performance of funds to the market[161]. With these illustrations, investors are given the opportunity to examine the performance of the fund compared to the benchmark over different periods of time (e.g. 1 year, 3 years, 5 years) to evaluate the consistency of the fund's management and the ability to generate above-market returns of reference (BRADLEY B., 2021). In other words, evaluating a fund's performance against a benchmark is essential to understanding the effectiveness of the fund's management and making informed investment decisions.

[161] Bradley B. (2021), *ESG Investing for Dummies,* John Wiley & Sons, Inc., New Jersey, p. 65

In the case of the Poste ESG fund, the three funds that act as *benchmarks* were designed trying to minimize negative sustainability impacts.
Generally, to establish what performance an ESG fund should have, the sustainable results achieved by the sector are considered, also taking into account the observations made by Rating agencies. Below is the evidence of the "scores" calculated by sectors which illustrates, in summary, the ESG impacts by sector.

Fig. 15: Sectoral impacts



Source: Morningstar

In some cases the ESG indicators are established in a very technical and personalized way, for example, the Bank of Italy has issued a "Charter of sustainable investments" which provides which ones to adopt for the evaluation of the 190 billion relating to foreign exchange reserves and the financial portfolio held.
The Bank of Italy's Sustainable Investment Charter is a document, issued in 2021, which illustrates the institution's approach towards sustainable investments. It defines the principles, strategies and objectives that guide the Bank's investment choices from an environmental, social and governance (ESG) sustainability perspective.
The key points of the Bank of Italy's Sustainable Investment Charter are the following[162]:
Sustainability Principles: The charter establishes the basic principles that guide the Bank of Italy's investments, emphasizing the importance of integrating ESG considerations into decision-making processes; Sustainability Objectives: Specific objectives are defined to improve the environmental and social impact of investments, they may include the reduction of carbon emissions, support for companies that respect high governance standards and

[162] https://www.bancaditalia.it/compiti/riserve-portafoglio-rischi/cis/?dotcache=refresh

contribution to the achievement of the Sustainable Development Goals of United Nations[163]. Investment Strategies: The Charter describes the sustainable investment strategies adopted by the Bank, such as the exclusion of certain industries (for example, those related to fossil fuels), the inclusion of companies with high ESG ratings and the adoption of engagement with the companies in which we invest to promote sustainable behaviour; Monitoring and Reporting: The Bank of Italy undertakes to monitor the impact of its investment choices and to transparently report the results obtained, this includes the publication of periodic reports on sustainable investments; Collaboration and Dialogue: The Charter promotes collaboration with other financial institutions and stakeholders to share knowledge and *best practices* on sustainable investments. The Bank of Italy also participates in international initiatives to promote sustainable finance; The adoption of this Charter reflects the Bank of Italy's commitment to contributing to the transition towards a more sustainable and responsible economy, recognizing the crucial role that financial institutions can play in this process.

The Bank of Italy's portfolio provides for the exclusion of the securities of companies operating in the weapons and tobacco sector and of those who do not comply with the fundamental conventions of the ILO (International Labor Organisation)[164]. The Bank of Italy's commitment to sustainable finance was started in 2018 and led, in 2020, thanks to the severity of its standards, to two important results: the cut in Co_2 emissions (which correspond to the annual of 210 thousand people) and the electricity savings corresponding to the consumption of 158 thousand families[165].

The Bank of Italy has a governance system that highlights its commitment to ESG objectives, illustrated below.

[163] The Bank's sustainable investment policy is inspired by:
the principles of the United Nations Global Compact, relating to human rights, labor standards, environmental protection and the fight against corruption; the objectives of the UN 2030 Agenda for sustainable development; the Paris Climate Agreement, which commits governments to keep the increase in average global temperatures well below 2°C above pre-industrial levels and continue action to limit this increase to 1.5°C .

[164] Including that on forced labor and trade union freedoms.

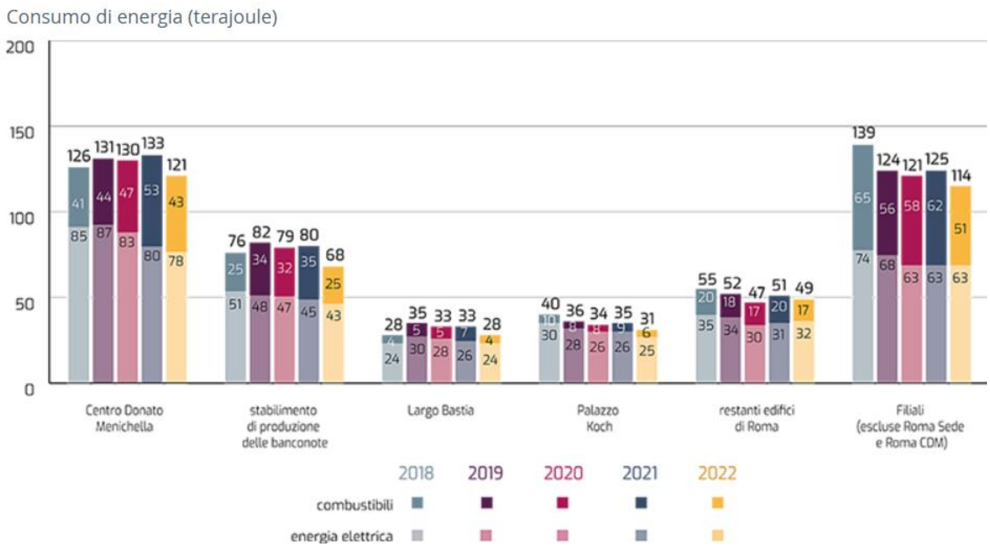
[165] Source: Bank of Italy

Fig.16: The governance for sustainability of the Bank of Italy

Source: Bank of Italy

As is evident, offices are envisaged at various levels to monitor the sustainability introduced, guaranteeing the application of the principles both at headquarters and in the branches. To understand the "extent" of its commitment to sustainability, the Bank of Italy also publishes the energy consumption for which it is responsible, asking each operational unit to report them[166]. Below is a figure showing the consumption indicated for each operating location.

Fig. 17: Energy consumption

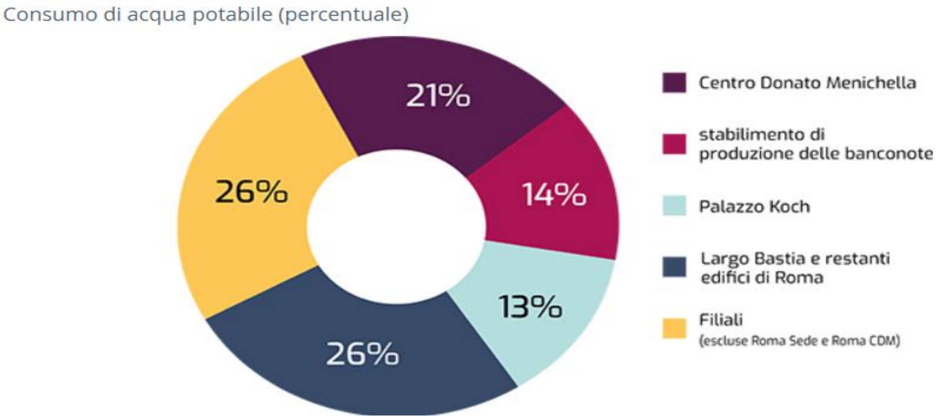


Source: Bank of Italy

A similar measurement concerns water consumption.

[166]Bank of Italy, *Rapporto annuale sugli investimenti sostenibili e sui rischi climatici,* Marzo 2023, p. 11

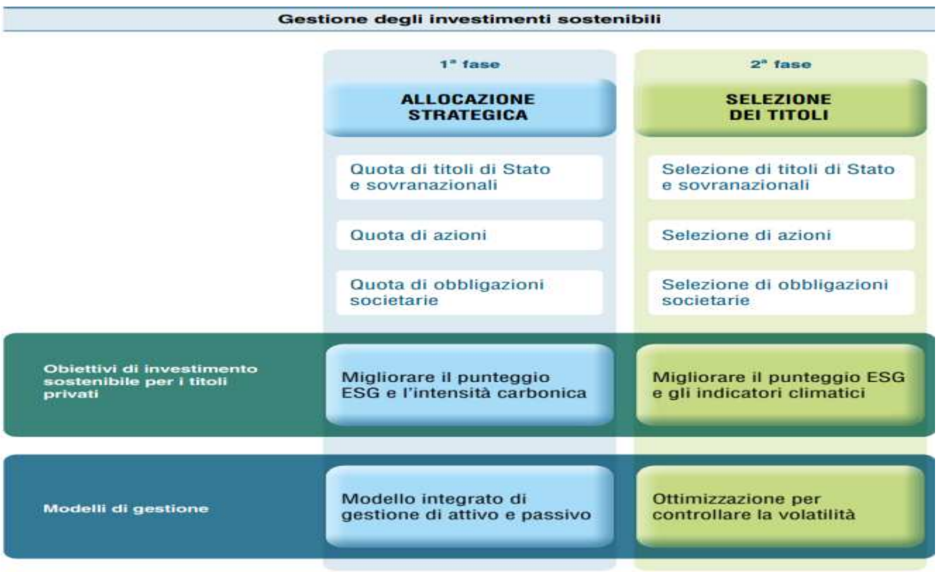
Fig. 18: Drinking water consumption



Source: Bank of Italy

The Bank of Italy provides the market, annually, with information on the investments in its portfolio and this inevitably urges companies to adopt ESG criteria in order not to see their securities eliminated from their portfolios[167]. Among the strategic policies pursued, we note the planning of Sustainable Investment Management which demonstrates how, in the Bank of Italy, it follows a model for attributing an ESG score to the securities representing its reserves. Below is this protocol.

Fig. 19: Management of sustainable investments

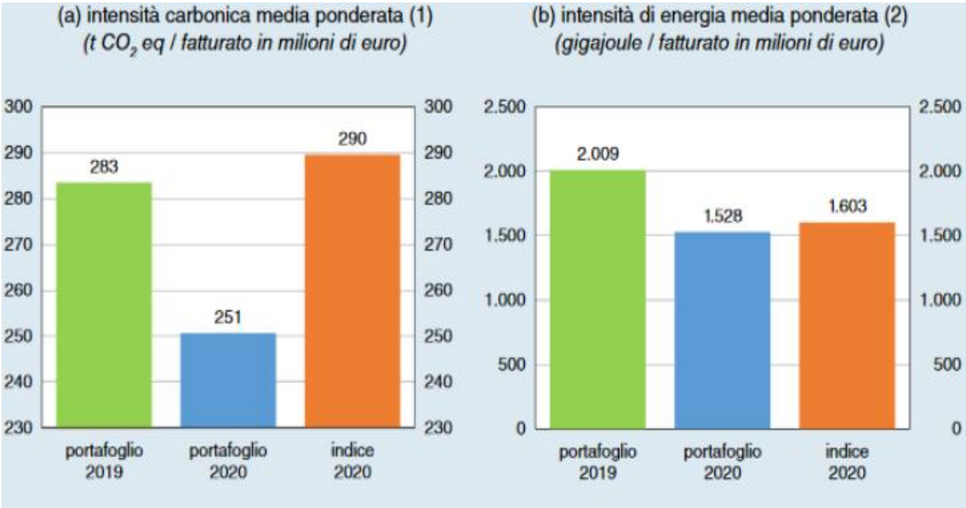


Source: Bank of Italy

[167] Bank of Italy, *Rapporto annuale sugli investimenti sostenibili e sui rischi climatici*, Marzo 2023, p. 13

The following figure highlights how the composition of the 2020 portfolio was characterized by the holding of securities of companies that have recorded, over time, a reduction in CO2 emissions and a decrease in energy use.

Fig. 20: Environmental impacts of the Bank of Italy's portfolio (2021)



Source Bank of Italy

The weighted average carbon intensity is calculated as the average of each company's carbon intensities (CI). The average weighted CI is represented by the ratio between the company's direct and indirect emissions, expressed in tonnes of CO2 equivalent and the turnover in millions of euros. The weighting is determined by considering the weight that the security holds in the overall portfolio. With reference to direct emissions, reference is made to those linked to the operational processes of companies, while those of an indirect nature concern the energy sources purchased by the company. Finally, the weighted average electricity intensity was calculated from the ratio of the portfolio company's electricity consumption to its respective turnover. The weighting is calculated considering the weight of the security in the portfolio[168]. In controlling portfolio risks, periodic reporting is also envisaged in which, in addition to the analysis of financial critical issues, indicators relating to the climate and sustainability risks of the portfolios are also examined such as: ESG scores, weighted average carbon intensity, decarbonisation commitments and emissions perspectives, the value at risk associated with climate events (Climate Value-at-Risk), the implicit increase in

[168] Bancaditalia.it

temperature[169]. An assessment is also envisaged, for individual climate risks, of the portfolios held, based on geographical area. Below is a summary diagram[170].

Fig. 21: Climate indicators

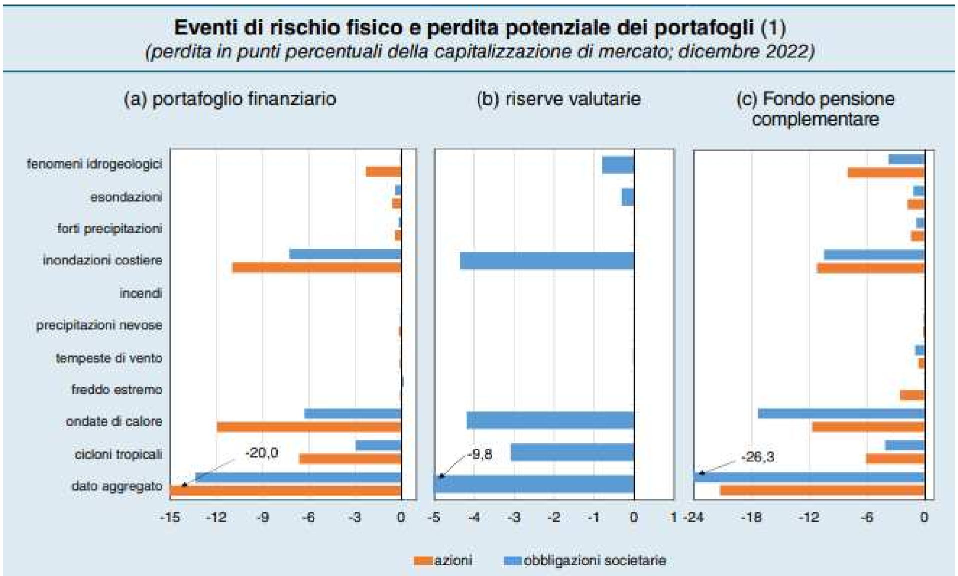
Indicatori climatici storici: portafoglio finanziario (1)
(valori assoluti, salvo dove diversamente indicato; 2022)

Indicatori	Titoli di Stato			Altri titoli			
	Emissioni legate alla produzione	Emissioni legate ai consumi	Emissioni legate alle attività governative	Titoli sovranazionali e di agenzie	Obbligazioni societarie	Azioni in euro	Azioni Stati Uniti e Giappone
Dimensione del portafoglio *(miliardi di €)*		117,8		2,2	0,8	14,2	2,4
Intensità carbonica media ponderata *(tCO_2eq per milione di € o pro capite)*	165,1 (100%)	8,3 (100%)	82,3 (100%)	3,7 (87%)	109,4 (98%)	152,8 (100%)	78,1 (98%)
Emissioni carboniche totali *Scope 1 e Scope 2 (tCO_2eq)*	19.447.799 (100%)	24.956.161 (100%)	1.949.851 (100%)	110 (78%)	56.843 (98%)	1.341.061 (100%)	60.961 (98%)
Impronta carbonica *(tCO_2eq per milione di € investiti)*	165,1 (100%)	211,9 (100%)	16,6 (100%)	0,1 (78%)	74,5 (98%)	94,5 (100%)	25,8 (98%)
Intensità carbonica *(tCO_2eq per milione di € di fatturato o PIL)*	165,1 (100%)	8,3 (100%)	82,0 (100%)	1,6 (78%)	145,5 (98%)	160,4 (100%)	85,9 (98%)
Quota di obbligazioni verdi *(%)*	2,8 (100%)			20,5 (100%)	6,9 (100%)	–	–

Source Bank of Italy

In the analysis of the risks connected to the securities held in the portfolio, we also analyze the specific ones linked, that is, to the climatic conditions of the countries in which the companies issuing the securities operate (BANCADITALIA.IT).The following figure describes these assessments.

Fig. 22. Physical risk events and potential loss of equity portfolios



Source Bank of Italy

[169] Ibidem
[170] Taken from: Bank of Italy, *Rapporto annuale sugli investimenti sostenibili e sui rischi climatici*, marzo 2023, p. 44.

The Bank of Italy reserves specific scores for initiatives aimed at social issues undertaken by the companies whose securities are owned, for example, if they have built roads to reach their plants and lit them, or if they have supported sports initiatives or if they have spaces interiors dedicated to relaxation and so on.

3.4 The peculiarities of US ESG Funds

The US economy, it is known, is based on both industry and services and is based heavily on the incisive contribution of the oil and *automotive industries* which are characterized by making use of highly polluting production technologies. Even the prevailing culture of the country which places values at the top, such as work and personal fulfillment, has contributed to spreading the idea that principles of solidarity and environmental protection are not central to economic results[171]. In this cultural environment it is very complicated to introduce ESG practices among corporations and politicians do not seem worried. United States policy has accompanied economic development by refusing to join the conventions on climate and pollution, even if, in 2015, Democratic President Biden showed greater sensitivity to the issue by deciding to sign the Paris agreements and, as regards sustainable finance, one of his executive orders established that it is necessary to anchor the assessment of financial risk to climate change. The *Securities and Exchange Commission,* responsible for supervising the federal stock exchange, is also planning to introduce measures to counter the practice of *greenwashing*[172]. However, these works are encountering opposition from some *lobbies* and from the federal states in which the main heavy industries operate. Texas, for example, passed a law in June 2021 that makes it harder for pension funds to invest in sectors that are committed to cutting emissions[173].

Nonetheless, also in consideration of the globalization of finance, various initiatives are being observed aimed at integrating environmental, social and governance (ESG) criteria into financial decisions. According to the Global Sustainable Investment Alliance (GSIA), assets managed according to ESG principles have reached record figures compared to the past[174], with a growing number of funds incorporating these criteria into their portfolios. Investors are

[171] Tett G. (2020), *Why ESG investing makes fund managers more money*, Financial Times, p. 13
[172] The works in question are considering the European model as a reference
[173] Tett G. (2020), *Why ESG investing makes fund managers more money*, cit., p. 15.
[174] Ibidem

attracted to these funds not only for ethical reasons, but also because many studies published in the United States have shown that sustainable companies tend to perform better in the long run[175]. US regulators are starting to recognize the importance of sustainability. The Securities and Exchange Commission (SEC) has launched initiatives to improve the transparency of ESG information provided by listed companies. This includes proposals to standardize disclosures related to climate risks and corporate sustainability practices. The green bond market is also growing rapidly in the United States by raising capital for projects with environmental benefits, such as renewable energy, energy efficiency and sustainable management of natural resources (TETT G., 2020). Companies and government institutions are exploiting this market to finance sustainable projects. Additionally, many large U.S. companies have adopted sustainability practices into their operations and strategies. These initiatives include reducing carbon emissions, improving energy efficiency, adopting sustainable sourcing practices and supporting local communities[176]. Institutional investors, such as pension funds and sovereign wealth funds, are putting increasing pressure on companies to improve their ESG practices recognizing that risks associated with issues such as climate change and social inequality can have a significant impact on long-term returns (UZSOKI D., 2020). Among the innovations in the field of sustainable finance are instruments such as *sustainability-linked bonds* which offer more favorable terms if the issuer achieves specific sustainability objectives. Furthermore, new investment platforms are emerging that focus exclusively on sustainable and *green tech projects.* In the strictly banking sector, JPMorgan Chase announced, in 2023, a significant commitment to sustainability, with plans to finance $200 billion in green and sustainable projects by 2025[177]. Bank of America has committed to mobilizing $1 trillion by 2030 for initiatives that address climate change and promote sustainability.

Goldman Sachs has introduced policies that limit financing to fossil fuel projects, such as thermal coal and Arctic oil extraction[178]. Morgan Stanley has launched the Plastic Waste Resolution initiative, which aims to reduce plastic pollution and has publicly promised to achieve a fully sustainable investment portfolio by 2050.

Banks are also incorporating climate risks into their credit and investment risk assessments. Citigroup, for example, has developed tools to assess climate risk exposure in their lending

[175] Mooney A. (2020), *ESG passes the Covid challenge*, Financial Times, p. 5.
[176] Uzsoki D. (2020), *Sustainable Investing: Shaping the future of finance*, International Institute for Sustainable Development, p. 11
[177] Mooney A. (2020), *ESG passes the Covid challenge,* Financial Times, cit., p. 18
[178] GoldmanSachs.com

and investment portfolios. Major banks are improving the transparency of their ESG practices by publishing detailed reports on their progress; Wells Fargo, for example, regularly publishes a Sustainability Report detailing their ESG activities and results. Many banks are also investing in social initiatives such as Bank of America which has launched programs to promote racial equity and financial inclusion, committing billions of dollars to support disadvantaged communities. Almost all banks are strengthening their governance practices to improve diversity on their boards and promote an ethical corporate culture. JPMorgan Chase, for example, has set specific goals to increase the representation of minorities and women in leadership roles. In summary, despite the low general attention to the ESG issue, the particularly large size of the US economy has allowed the development and diffusion of sustainable culture in various fields, including banking. In 2024, the sustainable investment fund landscape in the United States has seen a notable slowdown in new fund launches. At the end of the first quarter, only three new sustainable ETFs had been introduced and no new sustainable mutual funds had listed[179]. This is a significant decline compared to previous years; for example, 24 sustainable funds (including both ETFs and mutual funds) launched in the first quarter of 2023[180]. An example of the new funds is the iShares Energy Storage & Materials ETF, which covers companies involved in energy storage solutions such as hydrogen, fuel cells and batteries, supporting the transition to a low-carbon economy. Another example is the Nuveen Sustainable Core ETF, a fund that focuses on stocks of sustainable companies. Many banks offer their customers such funds although, in the United States, the preference remains for traditional, highly profitable securities, often issued by companies that work in heavy and therefore polluting industry.

3.5 The main strategies of ESG Funds

The European SFDR Directive, adopted on 27 November 2019 and entered into force on 10 March 2021, identifies the subjects responsible for communicating sustainability in the financial sector, namely:

Investment fund managers (UCITS and AIFM):

Financial advisors;

Pension institutions;

[179] Morningstar.it

[180] Morningstar.it

Banks offering investment products;
Insurance companies that provide investment products.
Institutions must disclose their policies on integrating sustainability risks into investment decision-making and provide information on the negative impacts of investment decisions on sustainability factors, information on how financial products contribute to specific sustainability objectives and a description of the environmental or social characteristics of the products and the methods used to achieve them. It is also necessary to employ sustainability benchmarks, i.e. levels of optimality to be achieved.
The SFDR provides for the classification of financial products into three categories:
Article 6: Products that do not promote sustainability characteristics and do not have specific sustainability objectives;
Article 8: Products promoting environmental or social characteristics, or a combination of both;
Article 9: Products that have a sustainable investment objective.
Having said this, despite the fact that the term "ESG" or "sustainable" is constantly used in their name, it is possible that the strategies of the Funds are specialized only on one of the themes, neglecting the others (the climate theme often prevails to the detriment of commitment to social issues or the adoption of an adequate governance structure). When banks offer their customers the opportunity to invest in ESG Funds, they must explain the strategy pursued.
Among the most widespread operational strategies among companies issuing securities included in ESG Funds is the so-called *impact investing evaluation* (which takes into account the achievement of an environmental, or social, result to be combined with financial *performance*). In practice, the objective pursued consists in achieving a certain rate of return associated with a specific level of environmental or social impact[181].
There is no shortage of cases of portfolio strategies in which funds are set up by exclusion, simply by not admitting securities issued by companies that carry out certain activities deemed, a priori, unsustainable (BELLINI M., 2021).
From the analysis of the compositions of the Funds it can be seen that, alongside securities issued by companies strongly oriented towards sustainability, others can be observed which present characteristics strongly focused on this theme, but also open to profitability. In practice, securities issued by non-sustainable companies are allowed but the choice is

[181] Bellini M. (2021), *ESG: tutto quello che c'è da sapere per orientarsi su Environmental, Social, Governance.* Network digital 360, p. 2

compensated with highly sustainable securities. In summary, in these funds, the need to achieve positive *performances* as well as configure adequate sustainability is satisfied by also introducing securities that are not very *ESG oriented,* but highly performing. One reason that justifies these choices lies in the need to create *appeal* for investors by presenting them with stocks known for their profitability alongside others that are less so but which stand out for their ESG commitment. What emerges is that it is the "combination" of the securities in the portfolio that configures the degree of sustainability and ethicality, for which evaluation grids are needed to indicate the real level of risk connected to ESG issues (BELLINI M., 2021).

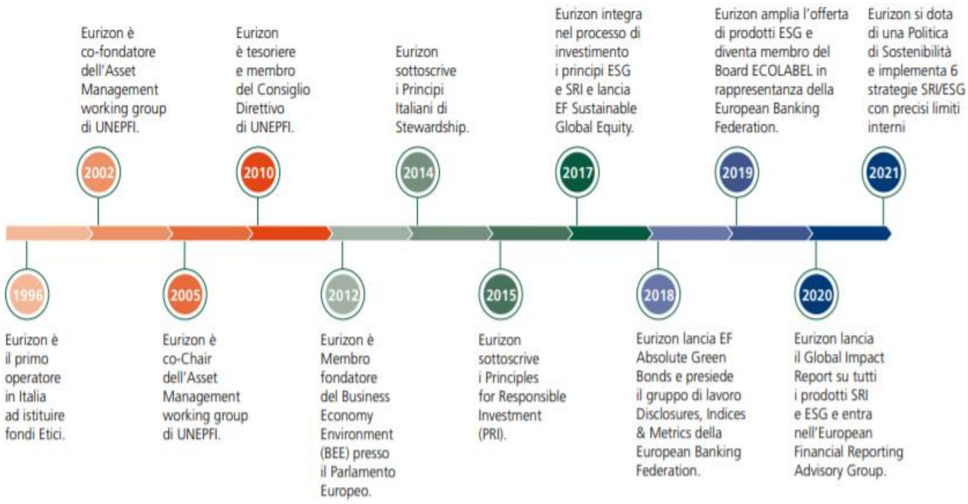
To understand this topic, an empirical case that describes the composition of some funds issued, such as those best known in the Italian market: the ESG funds of the Intesa Sanpaolo banking institution, may be useful. Since 2008, the institute's mutual funds, belonging to the Ethics System, have adhered to the "European Code for the transparency of sustainable and responsible investments". This is a code approved by EUROSIF[182] and has the aim of increasing the transparency of sustainable investment practices in the construction of investment products.

This code acts as a guide in the composition of the Institute's main fund, Eurizon Capital SGR, which annually makes a "Declaration of Commitment", through which it makes the "Ethical Funds Investment Process" public. The Intesa Sanpaolo Group constantly adopts ESG criteria in its savings management activity, holding 22.8% of national ethical funds. In 2022 the Group had, overall, 57 sustainable and responsible open funds, the commitment, in this sense, increased following the push of the European institutions which, on 11 December 2019, presented the European *Green Deal*, the path aimed at making energy production more sustainable with the aim of transforming the EU into a climate-neutral society by 2050. In general, with regard to financial products, when providing advice, the Bank is required to inform its customers about the characteristics and sustainable investment objectives. Eurizon Capital is the first Italian asset management company for sustainable and responsible funds, holding, by 2022, a market share corresponding to approximately 21.9% of the total. In 2015, Eurizon Capital SGR signed the *Principles for Responsible Investments* issued by the UN, after having joined, the previous year, the *Carbon Disclosure Project*[183] and the "Italian Principles of *Stewardship*" which define the methods for exercising the right to vote in listed

[182] Eurosif (European Sustainable Investment Forum) is the association that promotes sustainability through the financial markets.
[183] CDP is an international non-profit organization dedicated to helping companies and cities disclose their environmental impact.

companies. Below, a Figure that describes the various Eurizon accreditations of the Intesa Sanpaolo group and which highlights the dimension of the commitment in this sense.

Fig. 23: Eurizon accreditations (2016-2021)



Source: Intesasanpaolo.it

Fideuram - Intesa Sanpaolo Private Banking is a Group company that offers consultancy services to satisfy customers' financial, social security and insurance needs[184]. Also in this case, as for Eurizon, the products appear to be inspired by ESG strategies, pursuant to art. 8 of Regulation (EU) 2019/2088 ("SFDR"). Among the various ESG funds of note are: Fonditalia Ethical Investment, a fund established in 2012 that invests in bonds, shares and other funds. Investment decisions integrate the principles of social and environmental responsibility. *Green bonds* are also included.

GP Fideuram/Sanpaolo Invest Omnia is a fund established in 2013 and combines financial performance objectives with the promotion of social and environmental initiatives.

• The Ego Sustainable line invests, however, in shares/units of Italian and European Undertakings for Collective Investment in Transferable Securities (UCIs), classified as Ethical Funds.

• The Ego High Conviction 70 and Ego High Conviction 100 lines are characterized by the fund's exposure to companies with *business models* that meet sustainability criteria.

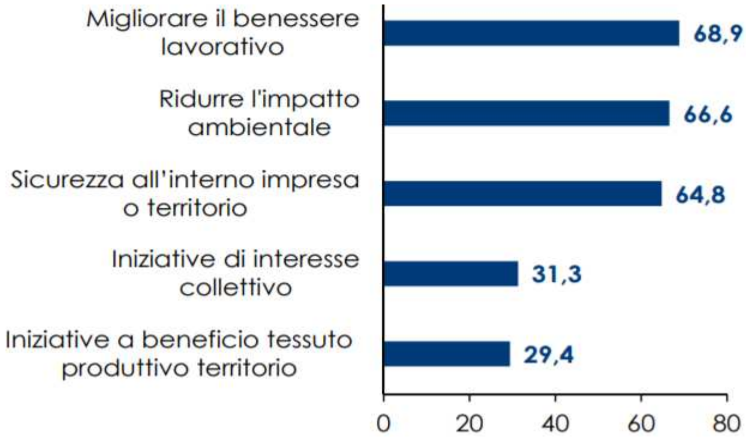
[184] At the end of 2020, the total assets of these products amounted to over 2.6 billion euros.

•	GP Mix Sustainable is a Mix Sustainable Asset Management, a balanced and diversified portfolio on international markets, which combines financial objectives with social and environmental results.
In the choice of financial instruments, reference is made to securities issued by governments, companies and supranational bodies which are aligned with the Sustainable Development Goals promoted by the UN, while the sustainability assessment is based on two steps: an initial one, which is achieved through the internal process of *sustainable quality assessment* and, subsequently, with the sustainability *rating which is processed by advisors* (BELLINI M., 2021).
In addition to a quarterly *report*, the Funds issue a further one which highlights the contribution made by the issuing companies to the Sustainable Development Goals.
To understand the size of the sustainable securities market, reference can also be made to Fideuram Vita's offer of insurance and pension products that promote ESG objectives and which are offered by the San Paolo institute.

•	Fideuram Vita Insieme Private is a policy disconnected from a flexible multi-asset fund that invests in UCITS [185]which are classified according to Articles 8 and 9 of Regulation (EU) 2088/2019 (“SFDR”), as entities that adopt in the process of investment criteria (ESG).
•	Fideuram Pension Fund, Fideuram Vita which has introduced exclusion criteria for business models with a negative impact on the community for the sector to which they belong or for not having joined the UN Global Compact (United Nations Global Compact), on the subject of rights human, environmental, anti-corruption and work.
•	Finally, Fonditalia Millennials Equity was established in 2018, and invests in equity securities issued by companies that adopt a *business model* aimed at satisfying the consumption habits of Millennials, attentive to ESG issues. Below are the criteria adopted by the Fund to evaluate the ESG levels of issuing companies.

[185]The Collective Investment Savings Organizations (OICR) are responsible for collecting investors' savings and then using them in various financial activities (from shares to real estate, passing through Government Bonds).

Fig. 24: Fonditalia Millenials Equity: ESG criteria



Source: Intesasanpaolo.it

As is evident, in addition to a qualitative assessment that detects whether the Fund's choices are actually ESG, they are evaluated with measurements. Regardless of the analysis of the sustainability of the issuers of securities included in the portfolios of funds managed by the banks, the latter have also implemented operational formulas that require compliance with the ESG principles. In particular, we refer to the Principles for Responsible Investment (PRI) and the Principles for Responsible Banking (PRB).

3.5.1 Key CSR Tools in the Banking Sector: Regulations PRI/PRB

The Principles for Responsible Investment (PRI) are a set of six voluntary principles developed to guide investors in integrating environmental, social and governance (ESG) issues into their investment practices[186]. The path that led to the creation of the PRI is the result of various historical stages and developments in the field of sustainable finance, starting in the 90s, when attention towards environmentally friendly finance and responsible investment grew, driven from global sustainability movements, such as the 1992 Rio Earth Summit and growing awareness of climate change and human rights[187].

Before the PRIs, there were several initiatives and guidelines that aimed to promote sustainability in investments, such as the United Nations Global Compact (launched in 2000),

[186] The adoption of these principles aims to contribute to the development of a more sustainable global financial system.

[187] Bellini, M. (2021), *ESG: tutto quello che c'è da sapere per orientarsi su Environmental, Social, Governance,* cit., p. 45

which called on companies to align their operations and strategies with ten universal principles on human rights, work, environment and anti-corruption (BELLINI M., 2021).
In 2005, United Nations Secretary-General Kofi Annan convened a group of 20 large institutional investors from 12 countries to develop the Principles for Responsible Investment (the project was managed by the UNEP Finance Initiative and the United Nations Global Compact United). The working group, made up of experts and representatives from the financial sector, worked together to formulate the principles, based on extensive consultation with stakeholders, including investment management companies, pension funds and NGOs. The PRIs were officially launched in April 2006 on the New York Stock Exchange, since then, the number of signatories has grown significantly, including a wide range of institutional investors and asset managers globally. The six principles are: 1) " Integration of ESG issues", which requires incorporating environmental, social and governance issues into investment analyzes and decision-making processes; 2) "Being active shareholders", i.e. being active owners and incorporating ESG issues into ownership policies and practices; 3) "Require transparency", or require adequate disclosure of ESG issues by the entities in which one invests; 4) "Promote acceptance and implementation of the principles", i.e. promote the principles within the investment industry and disseminate them; 5) "Collaboration", which requires working together to improve effectiveness in implementing the principles; 6) "Accounting for activities", whereby each signatory undertakes to account for activities and progress in respecting the principles.
PRIs have become a point of reference for responsible investors globally and have contributed to greater integration of ESG issues in financial markets and to promoting sustainable investment practices. Additionally, PRIs continue to evolve to address new global challenges, such as climate change and social inequality, by maintaining ongoing dialogue with signatories and updating guidelines and recommended practices.
In summary, the Principles for Responsible Investment represent the result of a long evolution of thinking on sustainability in investing, promoted by global initiatives and the growing awareness of the risks and opportunities related to ES issues.
The Principles for Responsible Investment regulation, applied to banks, aims to adopt sustainable and responsible practices in financial and investment operations. Based on the 6 principles described, banks will[188]: Incorporate ESG issues into investment analysis and decision-making processes, i.e. include environmental, social and governance factors in their

[188] Turco G. (2022), *I Principi per l'attività bancaria responsabile e la loro implementazione*, 2022, in iusinitinere.it

investment assessments and decision-making processes, considering the impact of these questions about long-term risks and opportunities. Furthermore, they will be expected to be active investors and incorporate ESG issues into ownership policies and practices, exercise their voting rights and actively engage with the companies in which they invest to promote responsible practices. To this end, they will have to request adequate disclosure on ESG issues from the entities in which they invest, demanding transparency and reporting from the companies in which they invest, so that they can accurately assess their impact and risk (TURCO G., 2022).

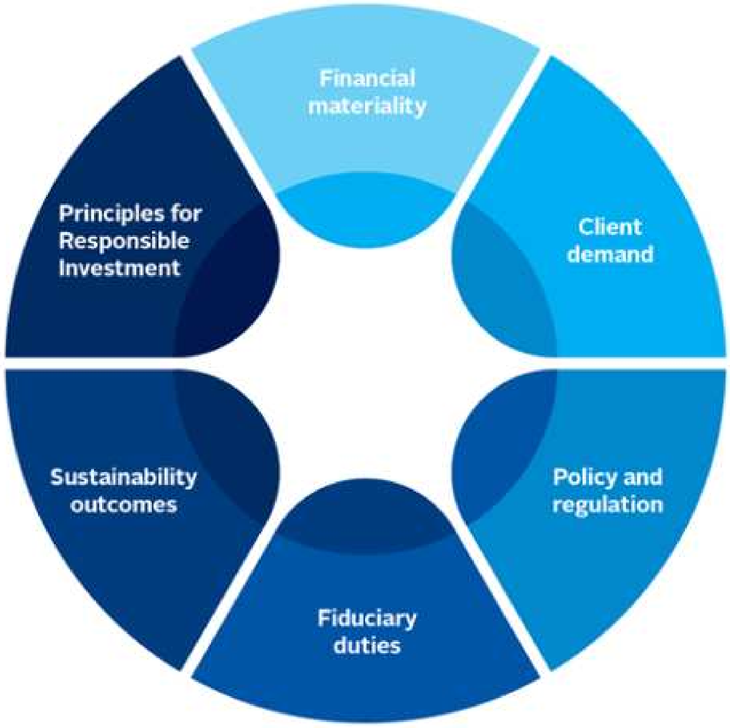
Among other things, you are required to promote acceptance and implementation of the Principles in the investment industry by collaborating with other investors, regulators and organisations. They are also expected to work together to improve the effectiveness of the implementation of the Principles, whereby they must share knowledge and resources with other signatories to improve the adoption of responsible investment practices.

Banks must not neglect the aspect of transparency regarding their progress in implementing the principles by providing regular and detailed reports.

To effectively implement PRIs, banks can adopt various strategies and tools, including [189]: Responsible investment policies, clearly defining policies that integrate ESG factors into investment processes; Training and skills development, which requires educating staff on ESG issues and their implications for investments; Stakeholder engagement, which involves dialogue with customers, suppliers, regulators and other interested parties to promote understanding and adoption of ESG practices; Risk assessment and monitoring, i.e. the implementation of systems to evaluate and monitor the ESG risks associated with investments. Regarding Reporting and Transparency, banks are required to provide regular reports on ESG activities and progress towards sustainability objectives. Adopting PRIs can help banks better manage risks, improve reputation and create long-term value for shareholders, as well as positively contribute to society and the environment (TURCO G., 2022). The adoption of PRIs has gained an important place in the set of all the other evaluations that are made before deciding on an investment, hereinafter, these considerations.

[189] Turco G. (2022), I *Principi per l'attività bancaria responsabile e la loro implementazione*, cit.

Fig. 25: The criteria for evaluating an investment



Source: Mornigstar

In addition to the PRI principles which, as we have seen, have not been dictated to the specific banking sector, others have been envisaged for the latter which concern only the credit sector. The Principles for Responsible Banking (PRB) are a set of guidelines developed to help banks integrate sustainability and social responsibility into their business strategies. They were launched by the United Nations in 2019, through the United Nations Environment Program Finance Initiative (UNEP FI). The main objective of PRBs is to align the banking sector with the United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Banks must "align their business strategy with the Sustainable Development Goals and the Paris Agreement", (this could include committing to financing renewable energy projects or adopting sustainable resource management practices) in order to contribute to economic and social sustainability and increase their positive impact and reduce, at the same time, the negative impact on the environment and society, establishing precise objectives that are consistent with their main activities (specific products and services could be developed to support disadvantaged or unbanked groups. For example, offering fee-free current accounts for low-income people or microcredit programs for small businesses in developing countries)[190]. Banks must "work responsibly" with their customers to promote sustainable

[190] Turco G. (2022), I *Principi per l'attività bancaria responsabile e la loro implementazione*, cit.

practices and enable economic activity that creates shared prosperity for current and future generations and are required to consult (before lending to a business, a bank may carry out a assessing the environmental and social impact of the project to ensure that it does not harm the environment or local communities. If the project does not meet sustainability standards, the bank may decide not to finance it. The bank is also expected to proactively engage and collaborate with relevant stakeholders to achieve society's goals (a bank can create financial products specifically designed to support sustainable businesses, such as low-interest loans for companies investing in clean technologies or green bonds intended for ecological projects or you can consider working closely with your customers, suppliers and local communities to promote sustainable practices by providing educational workshops for customers on sustainable investment opportunities or collaborations with NGOs to develop community projects) (TURCO G., 2022).

There is also an "implementation of effective governance" and a corporate culture that promotes the achievement of sustainability objectives. The PRBs also stipulated that banks must commit to being "transparent" about their positive and negative impacts while maintaining accountability for their actions and contributions (banks can publish annual sustainability reports detailing progress against targets environmental, social and governance reports. These reports may include data on carbon emissions, energy consumption, and funding for sustainable projects). The adoption of PRBs implies a commitment for banks to transform their operations and business models so that they can play a key role in building a sustainable future. This includes, among other things, managing environmental risk, promoting financial inclusion, and supporting initiatives that combat climate change. PRBs are very widespread as demonstrated by the initiatives of some banks[191]. ING Group, for example, integrated sustainability into its corporate strategy in 2022 by developing products such as "sustainability improvement loans" that offer reduced interest rates to companies that improve their sustainability performance (TURCO G., 2022).

Banco Santander has launched initiatives to increase financial inclusion, such as the "Santander X" program which supports entrepreneurs and small businesses with training, financing and resources. BBVA has created an environmental and social risk assessment system for its loan portfolios, excluding the financing of projects that do not meet certain sustainability criteria. Today, through the application of the Principles of Banking Responsibility, banks not only contribute to the well-being of society and the environment,

[191] Ibidem

but also strengthen their reputation and build a more resilient and future-oriented business. In the next chapter, the case of a bank that has formulated its operational strategy taking into account these principles will be analyzed: illimity bank.

CHAPTER IV

CASE STUDY: THE METHOD

Premise

The objective of the part of the work that follows is to verify whether the theoretical part treated up to this point finds concrete application in banks or whether, in reality, it is made more compliant with operational needs without adhering to the indications provided by the literature or whether it aligns completely a banking operating context will be introduced, trying to identify the ways in which the application of CSR is reflected. In addition to analyzing the measures formally introduced, what has been described will also be verified through a meeting with a sustainability manager, directly dealing with those who deal with these aspects. At the end, the results of the investigation will be compared with what has been identified in the literature to formulate a conclusive evaluation. The bank whose application of CSR will be evaluated is illimity bank.As for the methodology that will be adopted to collect and interpret useful information to understand how the illimity bank manages sustainability and if it fully adapts to what has been explained so far, it will be based on the development of an interview and its analysis.

The phases that characterized the setting of the interview were as follows:

1. Definition of the research problem

The problem or question of research has been identified: how illimity has adopted the principles of sustainability; where has it strayed from the literature; what benefits has it gained?

2. Review of literature

Identify gaps: Determine which issues have not yet been explored or which issues remain open.

3. Choice of research project

Quantitative vs. Qualitative: it was decided to explore qualitative aspects (based on observations, interviews and descriptive data).

4. Data observed

Choice of data deemed most important, such as those relating to the ESG initiatives of the bank (without deepening the results achieved)

5. Data collection procedures

It was decided to analyse the bank's non-financial statements of illimity and to make use of the direct testimony of one of the bank's sustainability managers who acted as spokesperson for the team in question

7. Analysis of data

In the light of the data collected, they were analysed on the basis of the information provided by the literature, comparing the information.

8. Ethical considerations

Informed consent was requested from the respondent so that the data provided could be used.

9. Report on the results

A detailed report of the results has been prepared, including implications, limitations and recommendations for future research.

4.1 Description of illimity case

Illimity Bank SpA, commonly called illimity, is an Italian digital bank founded in 2018 by Corrado Passera, former CEO of Intesa Sanpaolo and Poste Italiane. Its core business is the provision of innovative financial services mainly through digital channels, and is aimed at both retail and corporate customers, especially small and medium-sized businesses. Illimity operates primarily online, offering a range of banking services including checking accounts, savings accounts and personal loans, emphasizing intuitive digital interfaces and innovative technology to enhance the customer experience by making it simple and complete[192]. The bank also provides financial solutions and specialized advice to small and medium-sized enterprises (SMEs), with particular attention to those with growth potential and complex needs. The services offered include tailor-made loans, consultancy and support for restructuring and growth. The bank also has a unit dedicated to the management of distressed assets, the acquisition and management of non-performing loans (NPL) and unlikely to pay (UTP). This strategic focus helps illimity leverage its experience in resolving highly critical financial situations. Illimity leverages advanced technologies such as artificial intelligence and machine learning to optimize its services, including credit risk assessment and customer service, while the bank's digital platform aims to offer seamless and efficient banking experiences.

[192]In this way the costs of the accounts are minimized

Since its inception, illimity has shown significant growth thanks to the continuous increase in customers and the good financial performance recorded and, today, it continues to expand its product offering by exploring new market opportunities in Italy. In the sustainable field, illimity has an efficient CSR that has introduced an internal organization committed to banking practices that incorporate environmental, social and governance (ESG) criteria into its operations and decision-making processes. The bank also supports sustainable development and responsible investment practices. The bank's leadership team is made up of professionals with diverse backgrounds in finance, technology and management, which contribute to its innovative approach and strategic growth. Illimity Bank stands out in the Italian banking sector above all for its digital-first approach and its focus on niche markets such as distressed asset management and SME financing but also for its commitment to innovation and customer-centric services. During 2022, illimity participated in a series of *one-to-one* and *one-to-few meetings* with institutional investors, in view of institutional events including the Shareholders' Meetings and the Italian Sustainability Week of the Italian Stock Exchange[193]. On these occasions, the progressive alignment with market expectations on environmental, social and good governance issues emerged and both parties were able to benefit from a continuous and transparent dialogue aimed at identifying internal and external priorities of the Group. To integrate engagement activities and direct shareholder feedback, I ilimity carries out a periodic mapping of its socially responsible investors, analyzing not only the level of commitment but also the operating context. Given the ever-increasing relevance for investors, a real illimity ESG investment case has been created: ESG investor presentation which is visible on the site. In the presentations of quarterly results, illimity always includes aspects dedicated to ESG and also the growing attention that shareholders have paid to the topic has led to the integration of reporting that was previously only and exclusively financial. Although the legislation requires a report of non-financial results, the contents appear particularly rich in information precisely to strengthen engagement with the public. Starting from 2021, the year in which illimity published its first Strategic Plan, the bank continued to consolidate its position as an investor in ESG and 2023 saw further steps forward in the field of sustainability, with an alignment with international best practices and the expectations of institutional investors. During the third quarter of 2023, MSCI raised illimity's ESG rating again, from single A to double AA, placing the bank in the "Leader" category compared to the previous "Average", a result that can be explained by the good corporate governance that

[193] Information available on the bank's website.

help prevent potential unethical behavior. Furthermore, thanks also to the path taken in emissions reporting, illimity is standing out for its support of small and medium-sized businesses struggling with the energy transition[194]. In terms of climate risk management, the CDP rating agency confirmed the B rating, recognizing illimity's ability to prepare actions to measure and govern its environmental impact. The 2023-2025 Sustainability Plan, approved by the Board of Directors in February 2023, is the result of a careful internal and external analysis of the Bank and of the Group's increased maturity in non-financial reporting which has allowed it to start from a solid baseline aimed at define important and ambitious. The latter integrate with the various aspects of the Bank's business and meet the requests expressed by the various stakeholders, as well as responding to regulatory expectations regarding sustainable finance and governance of climate and environmental risks.

4.2 Focus on illustrative materials of the case

To analyze illimity's commitment to sustainability and its CSR organization, the sustainability reports published on the site will be analyzed and an interview will be conducted with the manager Alessandro Tarrini, Sustainability & ESG Expert.

The material taken from the site will be selected in order to indicate the aspects considered most important. The latter will be representative of what was elaborated in the part of the work dedicated to literature as, subsequently, we will proceed with the comparison between the prescriptions of the doctrine and the concrete applications.

The second tool, the interview, will try to delve deeper into the lesser-known and more practical aspects, as well as draw further food for thought on the topic analysed.

[194] During the same year, the Standard Ethics agency also revised the outlook from "stable" to "positive".

CHAPTER V

ANALYSIS OF ILLIMITY BANK'S ESG POLICY

5.1 Identification of analysis methodologies

The methodology that will be adopted in the analysis of the ESG and CSR data published by illimity will be such as to limit the information only to the data deemed relevant, excluding, for example, the descriptions relating to the subjects occupying specific roles and their CV. To offer the dimension of the phenomenon in a clear and exhaustive manner, we will rely, above all, on the published tables which, in fact, offer an immediate vision of the issue and which allow a rapid evaluation of the initiatives and the results achieved. Each table will be followed by its own analysis aimed at clarifying the connections between the published data. As regards the interview, it will be submitted to the bank's junior sustainability manager using a clear and exhaustive questioning method, which will touch on various areas. For this reason, the preparation of the questions will take place after outlining the focus areas, each of which will develop a series of requests for clarification. In order to avoid not touching on important aspects, the questionnaire will end with an open question asking for additional considerations which will allow the manager to "close" the interview by pointing out themes which, in application practice, prove to be important.

At the end of the evaluation of the analyzed materials (Report and interview) we will proceed with a comparison between what is suggested by the literature and what is applied by the illimity bank, examining any reasons for the distancing.

5.2 Illustration of the data collected

The aforementioned CSRD Directive extends the obligation to draw up the Sustainability Report to all large companies, listed and unlisted, that exceed one of the three limits, i.e. a number greater than 250 employees, a balance sheet of no less than 20 million per year and net revenues of a minimum of 40 million euros. In this sense, illimity, regardless of its policy, is required to report these aspects in a Report from whose analysis it is possible to draw clear attention to the legislation as well as a specific commitment in this sense. The report, in fact, often also refers to the regulations contained in Legislative Decree 254/2016 which

implemented the directive. At illimity, the company's Chief Risk Office (CRO), with the support of the IR & Sustainability Department, oversaw the preparation of preventive measures aimed at addressing the main environmental, social and governance risk factors.
With regards to environmental factors, the table below indicates the areas, objectives and progress achieved.

Fig. 26: illimity's ESG: Environmental factors

Ambito	Obiettivo	Stato di Avanzamento
Carbon Footprint	Mantenimento della neutralità carbonica del Gruppo (emissioni Scope 1 e Scope 2)	Completato
	Misurazione delle c.d. "emissioni finanziate" (Scope 3)	Completato
	Indirizzamento delle c.d. "emissioni finanziate" (Scope 3)	In corso
Energy Desk	Riattivazione di impianti di energia rinnovabile tramite l'Energy Desk	In corso
ESG in RAF	Integrazione dei fattori ESG nella valutazione del credito e nel Risk Appetite Framework	Completato
Energia consumata	Raggiungere il 100% di energia elettrica consumata proveniente da fonti rinnovabili (GO) per le principali sedi del Gruppo	Completato
Carta FSC	Mantenimento del 100% di utilizzo di carta FSC in tutto il Gruppo	Completato
Policy Ambientale	Sviluppo di policy ambientale a livello di Gruppo	In corso
KPI ambientali in Real Estate	Considerazione degli impatti ambientali e climatici nella fase di valutazione e gestione degli asset Real Estate	In corso
Finanziamenti green e finanza sostenibile	Sviluppo dell'offerta e del framework dei prodotti di finanza sostenibile (green/sustainability-linked)	Completato
	Sviluppare servizi di supporto/advisory ESG alle PMI	In corso
	Raggiungimento del 15% su volumi di origination (erogato/investito) cumulati 2023-2025 per finanza sostenibile (Sustainability-linked loans, Green Loans/Investments, Taxonomy-eligible)	In corso
ESG Asset Management	Lancio Fondo (SGR) con caratteristiche ESG	Completato
Reporting	Reporting allineato con le raccomandazioni della TCFD	Completato

Source: illimity, Sustainability Report 2023

In the area of environmental factors, a general commitment to reducing impacts is evident. In particular, we observe the objective of adopting renewable energy not only at headquarters level but also within the entire group. Interesting is the use of only recycled paper and the introduction, not yet completed, of a real estate evaluation, also considering the impact profile it generates. In the financial sector, the bank has recently launched a Fund (SGR) which has ESG characteristics. In addition to the environmental aspects, there is a clear commitment in terms of social objectives.

Below is the table showing social commitments.

Fig. 27: illimity's ESG: social commitments

Ambito	Obiettivo	Stato di Avanzamento
Gender Equity	Raddoppio del numero delle donne tra i ruoli manageriali	Completato
Talent Pool & Gender Pay gap	Mantenimento del bilanciamento tra uomini e donne nel "talent pool" formalizzato e di un gender pay gap con scostamento max del 5%	Completato
Engagement Index	Mantenimento dell'indice di engagement dei dipendenti del Gruppo sopra il 70%	Completato
Fondazione illimity	Progetti di impatto in ambito real estate, attraverso la fondazione illimity	Completato
Certificazione parità di genere	Mantenimento della certificazione parità di genere "UNI_PdR 125-2022"	Completato
Policy Anti-harassment	Sviluppo di una politica aziendale per la lotta alle molestie, ai comportamenti sessualmente inappropriati e al bullismo	Completato
Formazione	Mantenere una media di ore di formazione pari a 42 ore/dipendente	Completato
	Garantire 3 ore di formazione ESG per dipendente	Completato
Mobilità sostenibile	Iniziative di sensibilizzazione sulla mobilità sostenibile (casa-lavoro) a favore dei dipendenti	In corso
Supply Chain	>50% della spesa totale in beni e servizi al 2025 valutata con criteri ESG	Completato

Source: illimity, Sustainability Report 2023

Observing illimity's initiatives in the social sector, we note the increase in the presence of female quotas and the creation of a Foundation whose object is the planning of impactful initiatives in real estate. Also interesting are the initiatives aimed at maintaining continuous training and those aimed at combating harassment and sexually inappropriate behavior. Finally, the initiative regarding the adoption of ESG criteria in purchasing is also commendable (ILLIMITY, SUSTAINABILITY REPORT, 2023).

Finally, below are the ESG initiatives aimed at taking care of governance, directing it towards the promotion of initiatives in this sense.

Fig. 28: illimity's ESG: Governance commitments

Ambito	Obiettivo	Stato di Avanzament:
ESG Rating	Miglioramento dei rating ESG della banca	Completato
Remunerazione	Integrazione di obiettivi ESG nei piani di incentivazione	Completato
ESG Ambassadors	Individuazione di specifici referenti ESG nelle principali strutture (10% degli illimiters)	In corso
Adesione ai PRB	Adesione della Banca ai PRB e relativa rendicontazione	Completato
Certificazione di anticorruzione e compliance	Ottenimento certificazione Anticorruzione (ISO 37001)	In corso
	Ottenimento certificazione Compliance (ISO 37301)	In corso
ESG Investment policy & limits	Sviluppo di una Policy ESG di investimento (finanza di proprietà) e 100% degli investimenti di Tesoreria e di Investment Banking che considerino i fattori ESG in fase di selezione (due diligence ESG)	In corso

Source: illimity, Sustainability Report 2023

On the governance level, the use of a remuneration policy emerges that rewards the achievement of ESG objectives and the obtaining of anti-corruption or compliance certification. As regards the other goals achieved, it should be noted that in February 2023 the Group joined, through illimity SGR, the Principles for Responsible Investment (PRI - Principles of Responsible Investment), promoted by the United Nations with the aim of developing a more sustainable global financial system. By joining, the SGR committed to: (i) incorporating environmental, social and governance (ESG) issues into investment analyzes and decision-making processes; (ii) be an active investor and incorporate ESG issues into management policies and practices; (iii) require adequate disclosure on ESG issues from the entities in which you invest; promote acceptance and implementation of the Principles within the investment industry; (iv) work with the PRI Secretariat and other signatories to improve their effectiveness in implementing the Principles; (v) report on its activities and progress towards the implementation of the PRIs, which the SGR will publish according to the PRI Reporting Framework, on an annual basis starting from the next financial year (ILLIMITYBANK.COM)

Consistent with the nature and *mission* of the Company and the Funds it manages, in the evaluation of investment opportunities, on the one hand, ESG sustainability risks are taken into consideration, where "sustainability risk" means an environmental, social or *governance event or condition* which, if it were to occur, could cause a significant actual or potential negative impact on the value of the investment, as defined by the SFDR Regulation, and on the other hand the ESG factors for these being the criteria for selecting investment opportunities that favor the environmental, technological, digital transition and social inclusion with specific and documented strategies. Illimity SGR intends to monitor and evaluate the main issues related to sustainability, taking into consideration, in addition to the usual economic-financial data, also non-financial information, which mainly concerns the following components (ILLIMITY, SUSTAINABILITY REPORT, 2023):

- *Environmental:* environmental policies, climate-altering gas emissions, biodiversity, water and waste management, impact of products/services, type of energy used, levels of pollution generated, exposure to physical and transition climate risks (legal, technological, regulatory, market and behavioral);
- *Social*: human rights, workers' rights, the impact on local communities, product safety, relationships with customers and suppliers, the sustainability of the *supply chain*;
- *Governance*: analysis of the governance systems adopted, the integration of ESG variables in the company strategy, the composition and functioning of the corporate bodies, the *key-person risk*, the measures to prevent corruption, money laundering and practices anti-competitive, fraud risk and the level of fiscal transparency, risk control, transparency and quality of information *disclosure* towards all company *stakeholders*.

For illimity SGR, the responsible investment strategy is expressed through the incorporation of ESG issues into the investment decision-making process, thus pursuing the dual aim of creating sustainable value over time and simultaneously improving the overall management of sustainability risks relating to each portfolio. In accordance with the distinctive qualities and characteristics of the Funds established and/or managed by the Company, the main phases of the responsible investment process consist of the following main activities:

1. Negative screening: exclusion based on ethical-value, regulatory or sectoral criteria based on exposure to controversial economic activities *(norm-based and controversial screening);*
2. Positive screening: inclusion based on the adoption of ESG profile *assessment* models that awards *"best in class"* companies, i.e. leaders in sustainable development or committed companies in the implementation of virtuous sustainability paths over the investment period;
3. Engagement: an active dialogue with the management of the *target companies* subject to the investments, which will be differently structured according to the direction and governance rights recognized to the specific Fund involved depending on the specific financial instrument;

4. Reporting and monitoring: for the purpose of clear, timely and transparent communication to one's employees investors and stakeholders on the progressive achievement of the agreed sustainability objectives. To pursue this strategy, the Company intends to make use of tools for analyzing the ESG positioning of individual *target companies*, also being able to make use of the support of ESG *Advisors* and/or ESG *data providers*. Illimity SGR collaborates actively and transparently with its *stakeholders* in order to improve the effectiveness in the application of the principles of responsible investment, committing itself to making known to them the progress made in the integration of ESG issues in the investment process and in the interpretation and adoption of the taxonomic legislation still in progress[195].

5.3 Comparison between illimity's ESG policies and those of the sector

The information collected allows us to reach some conclusions. First of all, illimity, a digitally operating bank, is equally attentive to ESG implications as to those traditionally linked to obtaining profits (ILLIMITY, SUSTAINABILITY REPORT, 2023). This is explained by the fact that its operation, however, uses management based on consumables, energy, protocols, etc. which are no different from banks that have a smaller focus on digital than illimity. Furthermore, the products offered still remain anchored to elements susceptible to impacts, as happens in the case of Funds which can be based on securities issued by polluting entities or based on unfair activities. Having said this, it is noted that illimity began by adhering only to the Italian legislation aimed at regulating ESG practices and then moved on to also adopt all the other (non-regulatory) principles that are shared in the sector. No substantial differences with other operating entities in the banking sector seem evident, having noted, among its initiatives, all the measures generally adopted.

Interview

The interview is aimed at illimity's sustainability team, whose spokesperson is Dr. Alessandro Tarrini, *Sustainability & ESG Expert* at the bank. The questions were asked trying to identify which ESG aspects discussed in the literature receive feedback and which do not. Based on

[195]In December 2023 illimity signed a partnership with SACE to accelerate the sustainable transition of Italian companies thanks to the Green Guarantee.

the responses received, we will try to understand the relationships between the bank's operating model and the ESG setting adopted.
The interview was developed following a specific path, starting by framing the context in which the bank operates and its approach to sustainability and then identifying the skills expressed by the topic that deals with it. Subsequently, the sustainability indices used and the ESG and CSR were examined in depth. The last part covered the bank's sustainable funds and the indices used to evaluate them.
The bank was already born with a sustainable approach but the development of the various structures occurred continuously. In January 2020, the Sustainability Committee was established which supports the Board of Directors with consultative and propositional functions regarding assessments and decisions regarding sustainability. The interviewee is a Sustainability and ESG expert with previous experience in Marketing & Communications, in an international NGO, and in an educational startup. The acquisition of ESG skills through learning by going, i.e. through personal (and team) initiative, which is achieved by deepening the discipline relating to sustainability and setting objectives, is striking.
From an operational point of view, representing the bank's sustainability team, she participates in the IR & Sustainability Department and in the ESG Governance operational area, monitoring the Group's sustainability activities, coordinating the implementation of the Sustainability Plan and the monitoring and reporting on these issues, collaborating at all times with the various entities of the Departments and Divisions Group. In particular, the Sustainability Management follows the activities of the Sustainability Committee, which has the main task of assisting the Board of Directors with investigative functions in a proactive and consultative manner in assessments and decisions regarding sustainability issues (ESG - Environmental, Social and Governance). Furthermore, the Committee contributes to the sustainable success of the industrial plan of the Bank and the Group, as well as the corporate governance within its competence.
Illimity 's Sustainability Plan, the team monitors numerous ESG KPIs which are applied to both banking operations and the Group's business activities. For example, as foreseen in the 2023 Sustainability Report, as part of the Talent Pool & Gender Pay Gap, the maintenance of the balance between men and women in the formalized "talent pool" and a gender pay gap with a maximum deviation has been set equal to 5%. This was possible thanks to the Reward & Development team and the sustainability team who actively collaborated to achieve this goal. Illimity 's 2023-2025 Sustainability Plan was based on a preventive gap analysis, which

initially saw the identification of some aspects in which the bank was weaker and in respect of which an improvement was decided.
In this phase, in addition to identifying the objectives to be achieved, specific KPIs were also decided to measure them. The preparation of the protocols aimed at achieving the objectives was rather simple, while the measurement using KPIs encountered many difficulties as small variations in the variables considered can provide very different results.
illimity 's ESG commitment, described in our 2023-2025 Sustainability Plan, was approved by the Board of Directors in February 2023.
It was made possible thanks to the skills acquired, confirming that the learning by doing method is quite effective. In practice, starting from a strategic plan put in place in June 2020, in March 2023 the objectives were integrated with a sustainability plan, divided into thematic areas of Environmental, Social and Governance.
To achieve the ESG strategic objectives, all the Group's business, central and control functions were involved (as of 31 December 2023, 55% of the plan was completed, in line with the expected progress). As regards CSR, it was preferred to replace it with the broader sustainability concept which was also expressed through support for local communities and financial education. In other words, CSR is derived, automatically, from the organization that was made necessary to achieve ESG objectives. To demonstrate the responsibility towards local communities, the illimity Foundation was created with the aim of promoting projects of general interest that have civic, solidarity and collective utility purposes. Among the supported projects is Albergo Etico in Cesenatico, an inclusive place where disability is considered a value. Another example is the RE (GENERATION) CAMP project, which promotes the integration and socialization of new generations by involving local communities. Thanks to the illimity Foundation, a space within a shopping center, already active in social initiatives, was regenerated.
As described in the literature, sustainability in banks is pursued both at an organizational level and through sustainable funds.
Since the beginning of its activity illimity SGR has launched three different Alternative Investment Funds (AIF): iCCT – illimity Credit & Corporate Turnaround : the fund whose main objective is to invest in unlikely credits, equity and semi-equity instruments towards SMEs Italians in financial imbalance but with solid recovery prospects; iREC – illimity Real Estate Credit: the fund, operational since August 2022, created thanks to a joint initiative by illimity SGR and illimity Bank , aimed mainly at the market of impaired loans backed by real estate guarantees, both UTP and NPL, as well as in capital, semi-equity and real estate

securities; iSC – illimity Selective Credit: the private debt fund , launched in 2023, acts as a medium-long term strategic partner for high-performance unlisted Italian SMEs, financing them through the use of a wide spectrum of financial instruments, ranging from senior loans to subordinated debt and/or quasi- equity instruments , with a focus on ESG issues throughout the entire investment process.
The latter, as a fund classified pursuant to Article 8 SFDR, promotes environmental and/or social characteristics, paying great attention to ESG issues in the investment analysis and selection processes. With regards to the evaluation of sustainable funds, in compliance with the reference regulatory framework, in particular with EU Regulation 2019/2088 (so-called Sustainable Finance Disclosure Regulation or SFDR), illimity SGR has adopted an ESG Investment Policy aimed at defining the guidelines strategies for the integration of sustainability risk within investment decisions in the management of Alternative Investment Funds (AIF). In February 2023 illimity SGR joined the Principles for Responsible Investment (PRI), promoted by the United Nations with the aim of developing a more sustainable global financial system for which more than an evaluation of the funds in terms of sustainability, we guarantee that the commitments undertaken are respected. The application of sustainable principles is achieved by applying the provisions of the SFDR and not with discretionary indices. As regards ongoing sustainable projects, the following stand out: YEP (Young Women Empowerment Program) which sees illimity collaborate with the Ortygia Business School Foundation by joining the YEP (Young Women Empowerment Program) mentoring program , designed with the aim of including, enhancing female talent and supporting the economic and social growth of Southern Italy; H-Farm Education which sees illimity collaborate with H-Farm Education , an association that designs and implements study courses that provide the necessary tools to face the challenges of tomorrow, through the activation of internships carried out within H-Farm, following a multidisciplinary, collaborative and concrete path; The Wave Program: illimity 's youth empowerment program created to inspire young people to develop and enhance their skills and talents.
Illimity is assessed by several ESG rating agencies, such as MSCI, which increased its ESG rating from single to double AA during the third quarter of 2023, placing the bank in the "leader" rather than " Average " category. With regards to climate risk management, CDP confirmed its B rating, recognizing illimity 's ability to implement actions to measure and govern its environmental impact. Another example is SUSTAINALYTICS, which provides a consistent measurement of environmental, social and governance risks, which in 2023 we were awarded a score of 15.4 which equates to low risk. These findings are driven by the

company's good governance practices, which help prevent unethical behavior. ESG ratings provide both internal and external indications of a company's commitment to sustainability issues.

Illimity 's expertise believes that a reflection on the growing persuasiveness of the concept of sustainability in organizations and its growing importance is necessary. With the entry into force of the Corporate Sustainability Reporting Directive (CSRD), more and more companies will be required to adopt sustainability practices. No matter what industry or what role, sustainability issues are likely to become increasingly relevant and prevalent in all work experience.

CAPITOLO VI

DISCUSSION

6.1 Consideration of the results

The work highlighted that sustainability is receiving increasing attention, given the regulatory interventions that place it as one of the mandatory objectives for medium-large sized companies.

This highlights an important aspect, namely that in order to ensure that the attention of the activities was also directed to these aspects, it was necessary to raise awareness among the institutions and, in particular, governments. Today, the application of sustainability in large companies is highlighted in the combination of economic growth objectives, social responsibility, and respect for the environment. Sustainable strategies can differ considerably between companies, but in general there are key areas such as the management of natural resources, which sees large companies often adopt practices to reduce their use and minimize environmental impact, or energy efficiency, which sees growth in investments in low energy consumption technologies, use of renewable energy or even water management, with the reduction of its consumption and the recycling of waste water.

Waste management, with the implementation of recycling programs and the reduction of waste produced, are also among the "new tools".

Companies are increasingly looking to make their supply chain more sustainable by choosing suppliers who adopt sustainable practices, optimizing transportation routes to reduce CO_2 emissions, and choosing recyclable or biodegradable materials in products.

Sustainable product design is also fundamental for many large companies and is achieved in various forms, for example by creating products that have a lower environmental impact during their life cycle and investing in research and development to find innovative solutions to environmental problems.

Corporate Social Responsibility (CSR) is leading to the introduction of initiatives to support local communities, such as education and health programmes, policies to promote diversity and inclusion in the workplace, improved working conditions for employees and respect of human rights and responsible business management is essential to ensure sustainability. The publication of sustainability reports for transparency towards stakeholders also creates strong engagement with the relevant public who rely on companies they can trust.

The adoption of codes of ethics that guide company operations also creates prerequisites as well as the education of employees on sustainable practices, produces a bond with employees. The analysis of the initiatives of the illimity bank highlighted this aspect and confirmed that the reporting obligations have imposed awareness on the topic. Illimity, in fact, was born with an approach already oriented towards sustainability, which confirms that it is a well-established organizational scheme and that subsequent interventions have only perfected the organisation.

One aspect that emerged from the discussion is that sustainability in companies is evolving and has become, today, a practice grafted into every level of the organization.

Today, it goes beyond the adoption of basic measures to reduce the environmental impact to the point of implementing a complete integration of sustainability into business strategies.

Increased awareness and regulatory compliance has emerged, Even smaller companies begin to comply with environmental and social regulations imposed on governments and local authorities and with it the implementation of measures to reduce waste and improve energy efficiency, waste management practices; such as recycling and their reduction with investments in technologies and processes that reduce energy consumption.

The development of programs that support the local community, improve working conditions and promote equality are increasingly widespread and are accompanied by clear and transparent communication from the sustainability initiatives and results of the gods through sustainability reports.

Another innovative aspect concerns the definition of long - term sustainability targets that are integrated into the global business strategy, together with investments in research and development to create sustainable products and services.

Interesting are the developments of the business model that not only minimize the environmental impact but also create sustainable value by collaborating with other companies, NGOs and governments to promote sustainable practices globally.

The use of specific metrics and performance indicators (KPIs) to monitor and evaluate progress in sustainability is evidence of a concrete commitment to the ESG objectives as well as obtaining internationally recognised certifications, and training and education and employee involvement in sustainable practices. In summary, the document demonstrated the

constant tendency to integrate sustainability into company values and culture, promoting behaviors and decisions that support it at all levels of the organization.
As regards the question of research into the practical application of ESG principles, it has emerged that the legislation imposing sustainability dominates everything and that its measurement is, above all, anchored in the percentage of achievement of the objectives set.
As for the impact of the sustainable organisation on the brand image of the illimity bank, it does not seem to be relevant, in the sense that this aspect is not taken into account as the issue is considered essential and not strategic.

6.2 Comparison with the indications provided by the literature

The analysis of the organization of the illimity bank has highlighted that in practice the prevailing aspects are those linked to compliance with the legislation.
If the bank was already born with sustainable approaches, it is also true that, subsequently, the aspects that facilitate its application were improved, for example, the Sustainability Committee was introduced, this demonstrates an adaptation guided, rather than by corporate doctrine, by legal rules.
In particular, the SDFR directive and adherence to the principles that regulate banking activities entail various obligations, such as that of clear and transparent reporting which, if not respected, can lead to sanctions. What emerged from the interview is that the reference point for the bank's sustainable policy is not so much the reference public as the legislation, even if various ESG KPIs Key Performance Indicators are still monitored which refer to tools for corporate use applied both to banking operations and on the Group's business activities.
Furthermore, if the doctrine has differentiated the concepts of CSR, ESG and sustainability, what was evident is the existence of a single reference for the bank inherent in the achievement of pre-established objectives. The entire scheme refers to sustainability and the measures adopted refer to the achievement of pre-established objectives. The use of external consultants demonstrates that the attention to the topic is total but the expertise serves, above all, to comply with the legislation.
Also interesting was the information relating to the ongoing learning of ESG skills, through learning by doing, which demonstrates that to introduce sustainability into activities, adaptation to individual operational realities is necessary. In fact, each of them has its own personality, personal objectives, specific critical issues, all of which requires an individual

approach which, however, imposes unique objectives. The empirical analysis has, in fact, highlighted that the introduction of sustainability is a team effort based on objectives that cannot be freely adopted as they are strictly linked to the rules and that the areas in which these objectives can be affirmed are very vast, as demonstrated, for example for example, the choice to build an ethical hotel that follows the principles dictated to be so (it is clear that such an initiative would not have been feasible in a structure that does not deal with real estate).

In summary, the comparison between the literature and the practical application has highlighted that the regulatory needs and the nature of the activity affect the forms of application of sustainability and that the objectives pursued dominate the indices that measure the efficiency of the tools used.

How to take into account the shortcomings found in the sustainability literature, has made significant progress in recent decades, but there are still several aspects to be explored to improve the understanding and implementation of sustainable practices.

Many sustainability literatures are conducted in a single discipline. Increasing interdisciplinary research is needed that integrates knowledge from different disciplines such as ecology, economics, sociology and scientific policies to holistically address sustainability issues. Most sustainability research focuses on developed countries, while there is a lack of studies concerning developing countries is, in fact, essential to understand how sustainable practices can be adapted and implemented in different partner- economic and environmental contexts. In addition, more training would be needed to examine the long-term consequences and cumulative effects of sustainability strategies. A significant gap is also inherent in the involvement of the local community in sustainability research (sustainable solutions are more effective if developed with the active contribution of the community that will neither be affected). There are also gaps in the methods of measuring and evaluating sustainability which, in fact, are not homogeneous, often based on the perception of the achievement of the objectives. Understanding how policies can be designed and implemented to promote sustainability at different levels of government becomes crucial. Moreover, literature often fails to adequately address how sustainable practices can impact social inequalities and make them fairer and more inclusive.

6.3 Possible future developments

From a forward-looking perspective, it is likely that even small operating companies will adapt to ESG principles and that the birth of all new companies will require an approach that requires compliance with sustainability principles.
As regards the latter, it is clear that these are flexible principles that will adapt to new demands and the evolution of environmental and social dynamics. In this sense, given that the introduction of legislation has helped large companies, it is hoped that this will also happen for smaller ones.
The future of the sustainability of banks will grow with legislation that does not allow abstention from sustainable strategies and formulas.
Moreover, the transparency resulting from reporting on sustainable practices and comparing with other banks can only lead to its development.
Environmental, social and governance (ESG) criteria will become an increasingly integrated component of banks' investment and credit strategies. Financing and investment decisions will also increasingly take into account the environmental and social impact of the financed companies and the issuing securities included in the funds.
It is also expected to see significant growth in green financing, such as green bonds and sustainability-linked loans, and will be increasingly obliged to report on its activities in terms of sustainability, offering greater transparency to investors and customers, disseminate information on climate and carbon emissions associated with investment and loan portfolios. Technology will play a key role in supporting sustainability in banks. The use of advanced technologies such as artificial intelligence and machine learning will contribute to a better assessment of risks and opportunities. Banks are likely to cooperate more and more with governments, non-governmental organizations and others interested in promoting sustainable practices and developing innovative solutions to address environmental and social challenges will have a role in educating customers and the public on the importance of sustainability with programs of awareness-raising and initiatives to promote responsible financial behavior. Governments and regulators are also likely to introduce stricter regulations to ensure that banks make a significant contribution to sustainability objectives and that banks seek to have a positive impact on the communities in which they operate, investing in local projects that promote sustainability and social welfare.
Finally, a role in encouraging the introduction of sustainable solutions in businesses will certainly be given by public sensitivity to the continuously growing topic.

Of course, the conclusions of the work are based on one sample, the illimity bank, which is not representative of the entire banking sector. Comparing illimity's protocols to those of other banks could have confirmed or denied the existence of homogeneity. Moreover, the case analyzed is characterized by a recent activity that limits the validity of the results. Among the limitations of the study should also be indicated the circumstance that sees the collection of information has been obtained from a single contact person who, in fact, has given his own view of the facts (usually, research must reflect several points of view).

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