Introduction

Alberto Brugnoli, Luca Erzegovesi, Giorgio Vittadini

Background

The "Subsidiarity and… Sustainable Finance" Report has been developed during a particularly tough period, never experienced in the recent past, which is challenging the global economy and society and which proves that a urgent change in thinking is needed "to fully mobilise the entire financial system" in order to "reach immediately into every crack of the economy"[1], as stated by Mario Draghi in his interviews for the Financial Times.

As a matter of fact, the financial system has been called to drive public initiatives aimed at the common good. This is achievable only by engaging its different actors and promoting the subsidiary culture that deeply characterises European and especially Italian history.

In this respect, if it is able to seize this dramatic but extraordinary opportunity, the financial system could offer its important contribution in rethinking the current economic system, from a shareholder to a stakeholder capitalism

During the pandemic, the ECB Board of Directors promptly implemented measures to support credit inflows to companies, introducing new bank refinancing operations and providing resources for 3000 billion euro. The European supervisory authorities adopted measures in order to avoid that the regulations of prudential treatments

1 See Mario Draghi, *We face a war against coronavirus and must mobilise accordingly*, in *Financial Times*, 25th March 2020, https://www.ft.com/content/c6d2de3a-6ec5-11ea-89df-41bea055720b.

of loans could hinder the support to economy and the financial intermediaries were invited not to distribute dividends, which represent additional resources for financing companies.

The EIB introduced contingency measures and a guarantee fund to support SMEs credit; the European Union made the use of ESI fund (European structural and investment fund) more flexible, activated the safeguard clause of the Stability and Growth Pact and provided financial instruments to back the Countries most affected by the crisis.

In the meantime, the Italian government offered the opportunity to use ex lege moratorium on outstanding loans, facilitated the companies' access to bank credit, supplying new resources for public guarantees and implemented measures aimed at strengthening the companies' assets.

Once the emergency ends, it is fundamental to find the way towards development. The European Union outlined its path in the Next Generation EU, confirming the importance of the environmental and digital transition and the purpose of providing the conditions to implement the Green Deal with sustainable investments promoted by private actors and guaranteed with public resources by the European Union.

Purposes

In this context, the Report "Subsidiarity and…Sustainable finance" has been written to investigate the mechanisms and condition through which a sustainable and subsidiary financial model, which seizes all the opportunities offered by Europe and might contribute to a sustainable growth, can be developed.

The Report presents a complete evaluation on how virtuous cycles involving subsidiary culture, common good and need for achieving sustainable development are fostering and strengthening, through appropriate financial instruments and strategies, the fundamental

Sussidiarietà e... finanza sostenibile. Rapporto sulla sussidiarietà 2019/2020,
Fondazione per la Sussidiarietà 2020

contribution of the financial system on the well-balanced growth of the European continent and of its different territories, especially referring to the Italian situation.

Therefore, the Report contributes to the ongoing debate on overcoming a financial model exclusively based on the creation of shareholder value in favour of a wider perspective that includes all shareholders and leads to social wellbeing (shareholder value).

Then, the Report analyses the relation between subsidiary culture, common good and sustainable development, already presented in the Report 2017/2018 Subsidiarity and… Young people in the South and further investigated in the Report 2018/2019 Subsidiarity and… SMEs for sustainable development. The latter analysed these relations considering the most important dimensions of the real economy in Europe and Italy, while the current Report focuses on the most relevant issues in the European and Italian financial system.

The point of reference of this Report is represented by the 2030 Agenda, its 17 sustainable development goals and the strategies that both private and public actors are developing towards this direction at European and national level, also through initiatives such as the UN Principles for Responsible Banking[2].

From this perspective, the Report looks into the main challenges that both the European and Italian financial system have to face, the development they are experiencing and their inevitable changes, considering the specific role that the different financial actors are playing in this historical moment, the innovative instruments they are developing, the most relevant and paradigmatic cases and the resulting recommended policies.

Therefore, this report answers a series of questions about sustainable finance:

- How the financial system can contribute to the common good and sustainable development?

2 UNEP FI, *Principles for Responsible Banking. Shaping our future*, https://www.unepfi.org/wordpress/wp-content/uploads/2018/12/PRB-consultation-brochure.pdf.

- Which could be the contribution of subsidiary culture to develop a sustainable finance?
- Is there an added value for sustainable finance in the post-Covid-19 situation?
- Could the use of sustainability parameters in financing decisions justify and drive public guarantees?
- How is it possible to reconcile finance with the real economy? And which role may the Green Deal and Next Generation EU programmes play in this process?
- Which role might European instruments, such as InvestEU, together with national development banks, such as Cassa Depositi e Prestiti, play in developing a financial system based on subsidiary culture?
- Which is the role of bank groups, bank foundations, the co-operative credit system, credit consortia and fintech initiatives in financing sustainable development and in creating a subsidiary financial system?
- Which is the importance of impact investing in the current period and why could it play a key role in the capitalisation and financing of the third sector?

Structure

Examining the contribution the financial system may guarantee to sustainable development goals, we have systemised the different initiatives carried out at international level and that involve different actors belonging to this sector, focusing on the measures adopted at European and Italian level.

As far as the variety of actors that operates in this system is concerned, the Report has analysed the role of the main operators: public and private credit institutions, credit consortia and micro-credit institutions, institutional investors, complementary pension institutions, bank foundations and fintech. We decided not to examine the contribution of public financial companies since they represent a great variety in terms of assets and sectors; therefore, we focused on two relevant players: the European Investment Bank, an European Union institution, and Cassa Depositi e Prestiti, the Italian national promotional institute.

Moreover, we decided to focus on impact investing, which represents the most advanced and complex approach for selecting sustainable investments. Its complexity is also proved by its scarce adoption at international level, despite its greater potential in achieving Sustainable Development Goals, compared with other investment approaches or strategies.

The report is structured in three parts. The first and second ones analyse finance for sustainable development, mainly from the European and Italian actors' point of view.

The first part deals with this sector in Europe, while the second one in the Italian context. In the end, the third part introduces some paradigmatic cases of sustainable finance, in order to encourage reliable, long-term good practices for financial brokering.

In the first part, the authors present the main features for a sustainable finance in Europe, they examine the possible effects of the current crisis caused by Covid-19 and how the different initiatives proposed at European level may contribute to change the development model, integrating sustainable factors into the implemented actions.

The first chapter examines the transition path towards sustainable finance and introduces the main actions and measures taken at international, European and national level, summarising the impacts produced by these initiatives.

Analysing the potential contribution of the financial system to the common good and the role of subsidiary culture, Brugnoli and Matraia offer some hints for a subsidiary sustainable financial model. They focus on the actors and their contribution to the common good and on the possible factors and conditions which promote a culture that could support a sustainable growth.

In the second chapter, Erzegovesi examines the existing relation be-

Sussidiarietà e... finanza sostenibile. Rapporto sulla sussidiarietà 2019/2020,
Fondazione per la Sussidiarietà 2020

tween financial system, real economy and sustainable development, presenting a map of the context in which sustainable finance finds the most favourable conditions to develop and focusing on the main features of the financial system: central banks and depository banks. He analyses the factors that influence bank business models and hinder actions with a social impact and he also explores the role of the public bank network within a sustainability-oriented financial system. The chapter ends with a presentation of the weaknesses of unsustainable finance and the identification of some concrete suggestions to guarantee "the sustainability of sustainability". Specifically, it is possible to encourage forms of sustainable finance that may be an exemplar reaction against bad practices, by anticipating misuses and safeguarding the market competitive conditions.

In the third chapter, Amelio, Romeo and Milici deal with challenges and opportunities of including sustainability in the financial sector. They examine, in particular, the issue of the "Green Swan", that is the impacts that may be produced by catastrophes related to climate changes on the financial system and the related financial opportunities. Eventually, this chapter deepens the initiatives, carried out at international level, which refer to the climate-related reporting, focusing on the analysis of scenario in order to assess the resilience of the business model.

In the fourth chapter, Boffo and Ciferri explore the role played by National Promotional Banks/Institutions in supporting national economies and in the interaction with European Institutions to implement European financial policies and instruments, such as the "Juncker Plan", starting from the description of recent measures adopted by the European Union to promote sustainable development and react to the economic shock due to the Covid-19 pandemic.

Then, the authors introduce the new European programme InvestEU that will replace the current financial instruments provided by the European Union to support investments and the potential role of "Cassa Depositi e Prestiti" in implementing this initiative, also considering the commitment of this institution towards sustainable finance.

At the end of the chapter, the role of public guarantees in restarting after the crisis and in supporting the development of a more inclusive, resilient and sustainable model is presented.

At the end of the first part of the Report, the five chapter examines the importance of the impact investing and its contribution to sustainable growth and to the new social challenges that are emerging after the crisis due to the pandemic. Broccardo and Mazzucca describe the origin and evolution of impact investing, its potential instruments, such as green and social bonds, the market characteristics and dimensions, the emerged problems and the near-future challenges. The authors, in particular, highlight the difficulty of defining impact investing boundaries and the challenge of promoting a series of regulations and a context able to encourage them.

In the second part of the Report, the analysis of the financial system oriented towards a sustainable growth at national level is carried out, also introducing its main actors and their relevant characteristics. This study also aims at investigating the role of different subjects in financing sustainable development and creating a subsidiary financial system.

Firstly, the various types of bank institutions that traditionally grant credit to companies (banks, cooperative credit, mutual and savings banks) are presented. Then, the other financial actors, who may play a fundamental role in the panorama of sustainable finance, are introduced: credit consortia, microcredit, fintech, pension funds, insurance funds and bank foundations).

In the sixth chapter, Viganò and Gritti examine how the six major Italian bank groups operate towards a sustainable finance, referring to the information that results from their non-financial reports and from their industrial plans and financial statements. Then, the authors compare their findings in order to analyse the degree of sustainability sharing within the daily bank activities. Eventually, they conclude with some considerations about the effects caused by the Covid-19 pandemic, highlighting the importance of the relationships with stakeholders.

The seventh chapter introduces three types of stakeholder-oriented players, characterised by a close relation with their territory and this is why they better show how the subsidiary culture and the common good may drive financial system activities: the urban cooperative banks or mutual banks, the rural cooperative credit banks and savings banks. Throughout the chapter, Erzegovesi explain values and mission of these financial actors, their intrinsic resilience and the process of regulatory reform that affected them. Then, the author looks into the conditions that could promote this model of intermediation during this period of uncertainty, due to the Covid-19 pandemic.

The presentation of the actors that better convey subsidiary culture and the common good continues in the eight chapter, where Vescina analyses credit consortia and microcredit providers, both intermediaries that address to potential entrepreneurs affected to the risk of credit rationing and financial exclusion.

Starting from these disadvantaged actors, who benefit from such intermediaries to access credit, the author examines the role of credit consortia and microcredit providers and the challenges that have to be faced to boost their activities oriented towards socio-economic sustainability.

In chapter nine, Merola investigates how institutional and social-security investors can contribute to a sustainable growth and dwells on Italian peculiarities and on the reasons why these actors have not yet become an autonomous intermediary bodies and the protagonists in the economic, financial and social systems. Examining the importance of these actors, the author presents some figures on the growth and the amount of resources managed at national and international level and analyses the role of institutional and social-security savings as fundamental pillar for responsible investments and sustainable development.

Digital innovation is a driver for radical changes in several economic sectors, finance included. In this regard, in chapter ten, Castellani and Garofalo introduce the so called "fintech", that is companies based on the modularisation of financial activities in order to provide specialised services through telematic channels and flexible and lean structures.

This contribution, in particular, presents fintech characteristics in Italy, in terms of dissemination, distribution and type of service provided, analysing the relation between fintech and traditional intermediaries in terms of competition and cooperation. Then, the chapter focuses on crowdfunding and on the role that fintech companies may play to achieve Sustainable Development Goals.

In the end, the last chapter of the second part of the Report, focuses on impact investing and on a particular actor, the bank foundation, that better shows how subsidiary culture and the common goods can drive people's choices, thus contributing to the implementation of Sustainable Development Goals. Moreover, Falomi shows how bank foundations, private and autonomous profit and non-profit actors play a key role in the development of the Italian Country, holding relevant investments in social housing funds, funds for SMEs innovation and infrastructures, and in shareholdings in companies operating in strategic sectors such as municipal companies, highways, airports and Cassa Depositi e Prestiti.

The third part of the Report introduces some "bottom up" experiences that show how the energies of different actors can converge in favour of sustainable development. Paradigmatic cases of sustainable finance and actors that adopt impact investing as an approach to select sustainable investments are presented. These cases mainly refer to the Environmental, Social and Governance goals (ESG) and explain the experiences carried out by some actors mentioned in the second part of the Report, especially the main bank groups, social-security investors and bank foundations. The contribution ends with a study which invites to consider financial instruments and mechanisms to safeguard and restore forests, both at national and international level.

In the first paradigmatic case, Morganti explains that it is possible for a bank to contribute to the social dimension. In this specific situation, Intesa Sanpaolo carries out some financial operations, providing, for example, loans for university students, then it creates a specialised bank and launches the Fund for Impact programme. The three pillars at the basis of the author's experience, generativity, regulation of sources and sustainability, led to the creation of "Banca Prossima", unique for three reasons: staff selection procedures, that is colleagues of the Group committed in volunteering; the allocation of the 50% of the earnings to an equity fund to cover the higher risks of the projects; the ability to finance also people who don't have creditworthiness. Moreover, the author demonstrates that is possible to change the way of banking and to create a new capitalism which, while pursuing profit, promotes a vision based on the common good, supporting people with no possibility to access credit through "development credit". Eventually, the author presents the "Fund for Impact" project and the evolution of Intesa Sanpaolo which, after the acquisition of Banca Prossima, led "All the Intesa Sanpaolo Group to be Prossima", as stated by its CEO Messina.

In the second case, Merola describes the Arpinge experience, an innovative investment project of the private pension fund into the real economy, promoted by "Cassa dei Geometri", EPPI (industrial technicians) and Inarcassa (architects and engineers). The members of Arpinge, with a 14-billion-euro asset, aim at investing in the energetic transition and social infrastructures in Italy. The goal is to involve institutional private savings in projects eligible for equity, bankable for the financing requested by the market and sustainable for their positive impact on the environment and the social context. The Arpinge commitment to the energetic transition is relevant, with a 330-billion-euro investment portfolio. The author also introduces the "Galileo" project that fully represent how Arpinge works and suggest the lines of action to the legislator who should enhance the development of sustainable infrastructures.

The third case refers to Fondazione Cariplo that, together with its philanthropic activity, promotes impact investing. Firstly, Genevrini presents the projects carried out by the Social Housing Foundation, founded in 2004, which promotes the social housing model and represents the technical and social advisor for the funds that invest in this sector. Moreover, this Foundation is at the basis of the integrated system of the social housing funds which represents one of the most important impact investing programmes at international level, with its 3 billion euro. Then, the author explains the Social Venture Giordano dell'Amore Foundation experience, strategic and operative branch of Cariplo Foundation for the investments with an environmental, social and cultural impact, and promoter of the impact investing culture.

The fourth case describes the experience of the Development and Growth Foundation (CRT). Giovando starts from its mission and projects carried out in different thematic fields. CRT Foundation's activities are addressed to The Development and Growth Foundation and they are used for investments with a social impact. This contribution presents the main investments in projects and in different thematic areas the Foundation is interested in: social and human purpose fund (properties for social and collective use), social housing (properties for residential use), environment and territorial development, development of the entrepreneurial system.

Giusti presents another experience in the field of impact investing: that of Safea Impact Sgr, the first and only Sgr that aims at creating, promoting and managing closed investments funds which exclusively adopt impact investing strategies. Sefea Impact Sgr was founded by Sefea Holding cooperative society and Comunità di Messina Foundation, with the goal of demonstrating how the venture capital market, oriented towards the maximisation of the mid-term economic return, can be strictly connected to social economy, oriented towards the maximisation of the long-term social impact. The Sefea Impact Sgr case is important for three reasons: the relevant presence of the Third Sector in the social capital, also thanks to the participation of Fondazione con il Sud, anchor investor of the first fund; the adoption of strict process of measurement and management of the social impact, developed together with Tiresia, competence center of Politecnico di Milano; the network of relations developed that includes other players, such as Invitalia and the European Investments

Fund. Moreover, the author introduces the Social Impact Fund, set up in 2018 by Sgr, and the investments made in social enterprises and cooperatives in the North and South of Italy.

At the end of the third part, the last paradigmatic case describes how finance can play an active role in supporting the protection and restoration of forests. After presenting the theme of deforestation and its causes, Lancioni, Reverberi, De Soysa, Navurunnage, Arruabarrena and Bussola analyse two innovative cases in creating sustainable value: the Forest Resilience Bond (FRB) and the Tropical Forest Finance Facility (TPFFF). The first one is an example of how a traditional financial instrument (bond), has been used to finance forest conservation activities, identifying and extracting economic value from activities that depends on forests health and to involve a network of local stakeholders. The second one encourages virtuous practices to minimise the tropical deforestation through the multiannual payment of economic compensations to subscribers Countries. This contribution demonstrates the decisive role that finance can play in generating positive impacts, thanks to new ways to allocate and structure investment portfolios.

Starting from the studies presented by the different authors of this Report, we suggest the fundamental features for a new sustainable and subsidiary financial model that faces the current challenges and seizes all the opportunities both at national and European level, in order to drive the European and Italian territories towards sustainable development paths. In particular, after analysing the main conditions that may lead the financial system to play an active role in the fields of common good and sustainable development and examining the problems that might results from the Covid-19 pandemic, we present the fundamental elements of the new sustainable and subsidiary financial model. We start from the assumption that the pluralism of different financial players represent a plus in defining the mentioned model; therefore, firstly, we examine the contribution that each actor can offer to reach the common good and the Sustainable Development Goals of the 2030 Agenda, adopting a subsidiary approach. Then, we introduce the initiatives and the financial instruments provided by the European Union that will guarantee part of the resources needed to implement this model. Eventually, we propose the new sustainable and subsidiary financial model that considers Cassa Depositi e Prestiti and bank foundations as key players to face the current challenges and seize the opportunities resulting from the new sustainable development paths.

The final chapter leaves space to Commentaries, where personalities of the social, economic, political and institutional panorama convey the considerations aroused by the reading of this Report.

Acknowledgements

The development of this Report has been an opportunity to involve some relevant players of the Italian and European financial system characterised by different professional and academic profiles. This has led to the creation of an original knowledge hub, able to provide information and tools to understand and follow the path towards the recovery, sustainable development and the common good.

Therefore, we thank the authors – academic professors and professionals – who took part in the development of the Report, the personalities of the Italian ad international social, economic, political and institutional panorama who comment on the Report and whoever – people and institutions – participate to this adventure. We are thankful to everyone who gives their contribution, offers high-quality contents and services and helps to build and strengthen relations between all the actors involved.

In the end, a special thanks to the authors who also contribute economically to the creation of the Report: Cassa Depositi e Prestiti, Deloitte and Fondazione Deloitte, Intesa Sanpaolo, Fondazione con il Sud, Fondazione CRT, Arpinge.