

SUSTAINABLE FINANCE: GOVERNANCE AND METRICS

BPIFRANCE AND SKEMA PUBLIKA CONFERENCE ON 25 NOVEMBER 2022

SUMMARY OF THE VARIOUS CONTRIBUTIONS

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Ramatoulaye Kassé and Thomas Ruspil

The speakers, in order of appearance:

- Mr. Philippe Kunter, Director of Sustainable Development and CSR at [Bpifrance](#)
- Ms. Claude Revel, Director of SKEMA Publika
- Mr. Dhafer Saidane, Professor of Finance and Director of the MSc Sustainable Finance & Fintech at SKEMA Business School
- Mr. Arnaud De Bresson, Senior Advisor to the President of [Paris EUROPLACE](#)
- Mr. Marc Wormser, CEO of [Banque Wormser Frères](#) and Chairman of [the OCBF's](#) Climate and Sustainable Finance Committee
- Ms. Diane De Saint-Affrique, Law Professor at SKEMA Business School

The different European regulations are compelling companies and organisations to adapt their very governance to achieve the objectives of corporate social responsibility (CSR). While the aim of the EU taxonomy is to establish harmonised criteria for environmentally sustainable economic activity, the aim of the regulations is much broader, since they seek the implementation of a governance adapted to achieving all CSR objectives, a governance that will itself be scrutinised, hence the need for accurate and reliable measurement tools.

The "Sustainable Finance: Governance and Metrics" conference sought to bring some answers to these new paradigms.

Introduction - Philippe Kunter

Philippe Kunter introduced the conference by quoting the former CEO of Axa, Henri de Castries, according to whom we are in a period in history where major shifts are occurring, similar to the 15th century which saw the fall of the Byzantine Empire, the discovery of America, the invention of the printing press and other major events. Businesses today are grappling with uncertainty, aware that the world as they knew it is no more and that they must now face new fundamental challenges. According to Philippe Kunter, this change in paradigms requires a vision, intuition and, more importantly, actions.

The role of Bpifrance is to provide financial support to major industry sectors, but also to make businesses understand that they must integrate climate issues into their business model. At a time when more than [500,000 people](#) resigned in the first quarter of 2022, some companies are having trouble recruiting. What makes a company attractive nowadays? Companies attract employees when they are able to demonstrate concrete actions (sensitivity to the issue of the environment, a CSR policy, etc.).

In March 2021, Bpifrance published the study "[Les ressorts de l'action. Quatre profils de dirigeants de PME](#)" (Action Drivers. The Profiles of Four SME Leaders), to identify typical profiles among company leaders. In the findings, 26% are defined as "*capitaines humanistes*" (humanist captains). These are business owners for whom growth is not the goal; rather they see running a company as more of a human endeavour. They

seek to put in place concrete actions which are respectful of the environment and make quality of working life a priority (work-life balance). Other company leaders, in the “*stratèges engagés*” (socially conscious strategists) category, seek to achieve strong growth while also putting in place solid processes that meet ESG criteria¹.

Philippe Kunter insisted on the essential need for data. Data is important, because without measuring it is impossible to understand and thus to progress and take the necessary actions.

➤ **Why this conference? Claude Revel and Dhafer Saidane**

Claude Revel briefly presented the objectives of the SKEMA Publika think tank. She indicated that the ever-increasing number of European and international regulations affect not only businesses but also, further upstream, those that finance them (banks, funds, etc.), and their underpinnings are changing. Where ESG (environment, social, governance) rules and standards are concerned, that last word – governance – is becoming major. Companies will be evaluated based on what they are and not merely what they are doing in the three areas of strategy, implementation and performance measurement. And all of this will have to be measured; measurement is becoming a keyword.

Dhafer Saidane explained that SKEMA had positioned itself in the field of sustainable finance very early on, by creating the MSc Sustainable Finance and Fintech programme with the support of Bpifrance; by working to find and develop measurement tools, since these are essential for progress; and by informing public debate through SKEMA Publika.

➤ **A major revolution in sustainable finance – Arnaud de Bresson**

Arnaud de Bresson pointed out that we are in the midst of a major industrial revolution in sustainable finance. The industrial world is in a state of transition and this requires significant funding and time. The Paris financial centre is committed to implementing this revolution by organising communication between all stakeholders, namely businesses, the financial sector and public authorities, and by encouraging actions rather than words.

From the outset, Paris EUROPLACE had set its sights on developing a financial centre that supports the development of a sustainable economy, by placing the financial centre at the service of real companies, one that is different to the English financial centre.

At the dawn of the 2000s, Paris EUROPLACE began taking action to develop sustainable finance through three activities:

- 1/ responsible investment (sustainable growth);
- 2/ environmental finance (issuance of green bonds);
- 3/ social and solidarity finance (microcredit).

In 2015, this action was stepped up with the launch of the international Climate Finance Day ahead of COP 21. Next, in 2017, Paris EUROPLACE launched Finance for Tomorrow. Arnaud de Bresson explained that the Paris financial centre now wishes to move from words to action, notably by changing the status of Finance for Tomorrow, which will become *L'Institut de la Finance Durable* (the Sustainable Finance Institute)² on 1 January 2023 with, at its helm, Yves Perrier, the CEO of Amundi.

¹ Environmental, social and governance criteria.

² Organisation of carbon neutrality by 2050 and monitoring of the Paris financial centre's trajectory, positive impact finance, biodiversity financing, just transition, climate finance, ESG label, etc.

This is a fundamental issue. Paris EUROPLACE is also deploying its efforts abroad and taking action at both the European and international levels. Sustainable finance relies on collective efforts to which everyone can contribute, particularly the young generations.

➤ **How to achieve the sustainable objectives set by European regulations in the banking sector - Marc Wormser**

To operate a radical change in the banking and financial system, Marc Wormser recommends applying transparency, consistency, and involving all stakeholders. Marc Wormser mentioned, for example, the need to review the way issuance processes are handled, as at times it can seem like “greenwashing”. For instance, green bonds have been used to finance airport runways or ski runs in the desert. These days, financing must be channelled as much as possible towards the sustainable economy.

Regulations in the banking sector dictate that these risks be taken into account in terms of financing (companies offering activities that are not eco-friendly).

The precise details of every financial product must be disclosed (proportion of sustainable investments in the financial product, sustainability preferences of clients), particularly since the European SFDR³ and Article 29 of the French law on energy and climate came into effect.

The regulations change frequently. These changes increase the potency of the rule and, at the same time, compel financial institutions to constantly self-regulate in order to classify their products in the new categories.

For this, a sufficient amount of good quality data must be obtained. However, obtaining this data can be problematic for several reasons:

- 1/ large companies, which already have an obligation to produce non-financial reporting, can easily obtain the data, unlike VSE/SMEs⁴ or startups;
- 2/ the large amounts of data must be analysed. Yet each bank sends out its own ESG questionnaire to businesses. There are tools available, but standardisation and data analysts are lacking;
- 3/ there are no standardised global norms (European norms vs. American norms).

Marc Wormser is convinced that finance has a key role to play in this transition. The challenges are many, but there are already several positive points to highlight:

- increasing involvement of stakeholders;
- common rules for global consistency;
- funding of innovation by businesses and other financial players.

➤ **Strike a balance between regulation and self-regulation - Prof. Diane de Saint-Affrique**

Corporate social responsibility and governance are now inextricably linked. The concept of governance was defined in 1937 by the economist Ronald Coase, in his article entitled “The Nature of the Firm”. The concept was further developed in the 1970s, with a purely money-driven focus.

Following scandals such as those involving Vivendi Universal or Enron, national and international institutions sought to toughen the rules of corporate governance. Businesses are expected to contribute something to society (priority to the greater good, fulfil shareholder expectations, welfare of society). It is one of the major challenges of corporate governance, since CSR affects all businesses. Company leaders are aware of this. The coherence between business activities and norms (ethics, virtuous financial practices) is going to be increasingly scrutinised and measured.

³ Sustainable Finance Disclosure Regulation.

⁴ Very small enterprises / Small and medium enterprises.

In 2001, lawmakers initiated this movement with the so-called [Loi NRE](#) on new economic regulations in France. In 2010, following the French Grenelle Environment Forum (*Grenelle de l'environnement*), the law was extended to include large unlisted companies and the list of ESG indicators was widened, adding to the many indicators they must provide. The [decree of 9 August 2017](#), expanding existing legislation, added a requirement whereby listed companies and large unlisted companies must disclose non-financial information. In 2019, the so-called "[Loi PACTE](#)" modified the French Civil Code by requiring businesses to take social and environmental issues into consideration in their activities. This law also created [mission-driven companies](#)⁵, which must fulfil certain conditions set down in the French Commercial Code. With each new reform, financial transparency obligations will affect more and more VSEs and SMEs. Companies are running into difficulties (production of dense reports lacking in clarity, risk of deliberate or involuntary greenwashing, monitoring role of NGOs, etc.).

With this in mind, new solutions must be found. Hard law carries the risk of being out of step with the reality of businesses. Diane de Saint-Affrique argues in favour of self-regulation with integrated reporting adapted to the internal and external constraints of each company. In this system, of course constrained by law, companies would be free to choose the indicators for which they will be accountable, by implementing a rigorous methodology supported by irrefutable metrics, the goal being to objectively and concretely measure the company's financial and non-financial progress. We need to work on 'soft law' which would, needless to say, be governed by 'hard law'; this could be called 'smart law'. As part of the think tank, Prof. de Saint-Affrique is working on opening dialogue between businesses and stakeholders, particularly NGOs, so that rules suitable to all may be found, particularly as regards internal reporting.

- **An example of an impact measurement tool: the SPI (Sustainable Performance Index) - Prof. Dhafer Saidane**

"In God we trust; all others must bring data" – Dhafer Saidane quoted the statistician W. Edwards Deming to illustrate the lack of tools available for measuring sustainable transformation. To create the SPI, the development team, composed of Dhafer Saidane, Sana Ben Abdallah and Mihaly Petreczky, took a different approach not usually taken into account. The majority of impact measurement agencies and consultancies simply focus on the ESG criteria (environmental, social and governance). Other agencies evaluate a company based on a single criteria such as the environmental impact of its operations or on an intermediate goal. Of all the ESG criteria, the team focused on stakeholder satisfaction⁶ with regard to governance.

Based on a score from 0 to 100, the SPI creates a utility function for each stakeholder, taking into account all dimensions. This function has several criteria and combines different areas (legal, economic, law, etc.). It is a score calculator and not a score aggregator (rating). It calculates the intensity of the sustainability of a company. It is based on all the dimensions of sustainability (environmental, social and governance). The SPI is a modest contribution to enrich the debate and explain that the future of sustainable finance also resides in the measurement of the impacts for stakeholders. The SPI is a tool enabling companies to take action and to measure progress in stakeholder satisfaction.

The Brazilian bank BDMG is currently applying the SPI methodology and the latter is also deployed within the Tunisian bank STB Bank. UNECA (the United Nations Economic Commission for Africa) has also expressed an interest in this tool.

⁵ Businesses with a "mission-driven company" status must declare their purpose, or *raison d'être*, i.e. several social and environmental objectives they wish to achieve as part of their mission.

⁶ Such as customers, suppliers, businesses, etc.

➤ Testimonials

Two brief video testimonials were shown; one from Mr. Nassim Oulmane, Chief of Green and Blue Economy at [UNECA](#), and the other from Ms. Dalini Marcolino Ferraz, a member of the [BDMG](#) advisory council.

➤ Answers to questions from the audience

The SPI is in the implementation and development phase. There is not yet any formal feedback available on ongoing experiments.

The SPI is not a due diligence solution yet. The approaches and processes are different. However, one day soon it could be taken into account in its criteria.

Arnaud de Bresson indicated that self-regulation based on a soft law approach, as described by Diane de Saint-Affrique, is an important element. The objective is for every company to be able to tackle the issues. Through the *Institut de la Finance Durable*, Paris EUROPLACE wishes to help companies apply the green taxonomy in order to truly become "greener". To do this, a means of measuring progress is necessary and in this respect Dhafer Saidane's SPI could prove truly useful from an operational standpoint.

Marc Wormser explained that around ten years ago Banque Wormser Frères had launched a tool similar to the SPI to establish a materiality matrix and help companies measure. He is interested in learning more about this new tool. Some technical explanations were provided by the data scientist on the SPI team.

Philippe Kunter concluded by underlining that in many cases we do not have any technical tools at our disposal. The stakeholder-focused approach is a paradigm change and also a cultural change. There is a growing number of measurement tools, but what is most important is the direction taken with these tools. Businesses must be better supported rather than judged for their bad practices.

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