International Conference *Charting Tomorrow: Bridging Knowledge and Action in Sustainable Finance*, Warsaw, September 30th 2023

On Saturday, 30th September 2023, the Department of Law and Administration of the University of Warsaw hosted an International Conference titled “Charting Tomorrow: Bridging Knowledge and Action in Sustainable Finance” as a part of the graduation ceremony of the first edition of its “Sustainable Finance – Postgraduate Studies in Law and Finance”. The graduates had the opportunity to explore 60 subjects guided by professionals from the Faculties of Biology, Physics, Management and Law, as well as practitioners from both the private and public sectors.

Professor Tomasz Giaro (Dean of the Faculty of Law and Administration at the University of Warsaw) delivered the opening remarks, expressing gratitude to co-founding partners of the Postgraduate Studies – the Polish Financial Supervision Authority, and the Institute for Responsible Finance. In his speech, Dean Giaro underscored the success of the first edition of the Postgraduate Studies in Sustainable Finance, emphasizing its addition to the Faculty’s educational offerings as a responsive measure to the needs of the labor market. He also congratulated the 38 graduates who have had the chance to learn from 25 lecturers from relevant fields related to sustainable finance and completed their dissertations.

In the keynote speech, Dr. Lucia Alessi (Team Leader for Financial Research at the Joint Research Centre of the European Commission; hereinafter: JRC) provided an overview of her team’s research. She outlined challenges faced by researchers in the field of sustainable finance, such as the lack of appropriate data needed to assess the effectiveness of introduced remedies. So far, even though companies were subject to the duties of reporting non-financial information stemming from the NFRD[1], they were not obliged to audit those parts of their reports. This will change when the CSRD[2] comes into force, as non-financial disclosures will also be subject to an audit. However, it is important to note how imprecise the disclosed information is, for example, the discrepancies within reported Scope 3 emissions can differ by a factor between 100 to 1000. In this context, the relationship between correlation and causation comes to light. Unfortunately, conducting research, including a study and a control group, is impossible. While observing market behaviours is possible, isolating the basis of the actions of investors is outside of the reach of the research.

After those remarks, Dr. Lucia Alessi has displayed some of the results of her studies. Among them, a general tendency can be observed. After signing the 2015 *Paris Agreement*, investments in fossil fuel companies have decreased; upon the withdrawal of the United States in 2020, those investments have increased yet again. In the presentation, Dr. Alessi discussed risk exposure related to the so-called *green transition*. Such risks appear to be concentrated not only geographically,

[1] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance.

[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

but also as far as the type of investment is concerned. However, she stressed that such research methodology is still under construction. Classical *stress testing* is not an appropriate tool, as the shock propagation of climate risks deviates from other types of risks.

The effects of physical climate risks on financial institutions are most visible for smaller banks, which are the most engrained within the local economy. The research of the JRC shows that banks may be aware of this fact. Credits bear higher interest rates in regions with higher risk of flooding. Natural catastrophes, such as floods, lead to a 54% increase in risk of default among small and medium enterprises, and their effects can be observed even 8 years after the event. Dr Alessi has also spoken about *greenium*, a bond issuer's premium resulting from the fact that investors are willing to pay more, or accept lower yields, in exchange for the issuer achieving a 'green' investment objective with the financing obtained. This phenomenon is not observed in the case of financial institutions which issue such bonds. On the other hand, banks that structure their debt instruments in this way, generally provide credit to companies, which by themselves demonstrate lower emission levels.

In the discussion, Professor Szymon Malinowski (Director of the Institute of Geophysics at the Faculty of Physics of the University of Warsaw) raised concerns about the complexity of the effects of environmental disasters and their spread to different sectors. Unfortunately, research hitherto has focused on single ecological disasters – a framework for analysing more complex events is yet to be developed. The speaker asserted that 2023 will be the first year when the global average temperature exceeds pre-industrial levels by 1.5 degrees Celsius.

The conference's first panel was dedicated to education and research in sustainable finance. The moderator, Dr Anne-Marie Weber, highlighted that "there is an important space for academia between the worlds of business and policy-making".

As the biggest challenge for research in the field of sustainable finance, Dr. Robert Rybski (Leader of the Working Group on research in sustainable finance within the Polish Sustainable Finance Platform & University of Warsaw) has demonstrated the classic issues faced by science – including data quality and resource accessibility. Liliana Krawczyk (Working Group on the education and training courses in sustainable finance within the Polish Sustainable Finance Platform & Analyst in EY EU Green Deal Centre of Excellence) described the substantive directions of sustainable finance education in Poland. Those are, firstly, issues concerning Environmental, Social and Governance (hereinafter: ESG) reporting requirements, and, secondly, the matter of sustainable investing. Due to the maturity of current regulations, educational activities in the former area are more developed. In the panel, Professor Lucia Alessi provided advice for those considering a career in public policy making. She stressed that the social sciences face a challenge that the natural sciences generally do not have, namely, everyone has an opinion. Therefore, social scientists, and in particular economists, must make an effort to ensure that their work is taken seriously. Importantly however, without investment, the solutions proposed by engineers and scientists have no chance of being created or developed on a larger scale.

Another issue raised was the phenomenon of *competence greenwashing*[3], unqualified individuals presenting themselves as experts in sustainable finance. This is an adverse trend that

[3] Schumacher K. *'Competence greenwashing' could be the next risk for the ESG industry*. Responsible Investor 2020 r. (https://www.responsibleinvestor.com/articles/competence-greenwashing-could-be-the-next-riskfor-the-esg-industry).

may lead to undermining trust in positions formulated based on credible research and established scientific experts. The eagerness to include the widest possible spectrum of stakeholders in the public debate, must be balanced with the fact that science must remain science. Specific interests often stand behind the above-mentioned views, which should be considered when shaping sustainable finance educational programmes. In achieving this, it is worth not only considering the inclusion of science, but also the orientation of educational activities in terms of the skills genuinely needed by those in the positions in question.

The second panel, "Sustainable Finance in the Reconstruction of Ukraine", was opened by Dr Ievgenia Kopytsia (Associate Professor, Yaroslav Mudryi National Law University), who spoke about the reconstruction of Ukraine within the framework of its future EU membership. Prior to the war, the country relied heavily on fossil fuels, and so its reconstruction can be seen as an opportunity to introduce greener solutions. Dr Kopytsia presented the implementation of the EU Taxonomy (Green Taxonomy), the potential issuance of green bonds, and the Carbon Border Adjustment Mechanism (CBAM). These solutions represent, on the one hand, a challenge for the Ukrainian economy, but, on the other, they are also an opportunity to both attract foreign investment and facilitate compliance. It is worth emphasizing that Ukraine is not obliged to comply with EU law prior to its anticipated EU accession, but its implementation may have positive political and economic effects.

As a geographical area, Ukraine can be characterized by a huge potential for renewable energy – conditions for solar, wind and biomass-based energy are in place; offshore wind power plants are already under consideration. As an introduction to the discussion, Dr Ievgenia Kopytsia indicated the role of international financial institutions in the sustainable reconstruction of the country. During the panel, Piotr Matczuk (Country Officer, Poland, International Finance Corporation, World Bank Group) declared that the overall financing needs in this area are estimated at USD 400 billion, of which the private sector will be able to provide USD140 billion. He outlined the implementation of the Economic Resilience Action programme, and pointed out that investments of the World Bank Group in Ukraine are aligned with the "build back better" principle. One of the most important aspects for Ukraine is resilience. In the context of the energy sector, it can be increased, for instance, *via* modular generation and energy storage. Dr Wojciech Lewandowski (European Bank for Reconstruction and Development; hereinafter: EBRD) emphasized the importance of supporting Ukraine not only politically but, importantly, also on the direct financial level through, for example, opening lines of credit and investments.

Reconstruction activities in Ukraine can be divided into those undertaken now, and those that will be tackled after the end of military operations. Considerable attention is being paid to the sectors most directly impacted – housing and transport infrastructure (e.g. talks are underway to reconstruct Ukraine's railway network on the Western gauge model), as well as to the support of the alignment of the economy to European standards. In terms of ongoing activities, investments are being undertaken in the energy sector, key infrastructure in municipalities, and food security. Reintegration programmes for veterans are also being pursued – Dr Lewandowski accentuated that ESG also contains the letter S, standing for the social aspect.

The panelists were faced with the question of whether the actions of international financial institutions are sufficient. Professor Ievgenia Kopytsia asserted that only with such support will it be possible to create the right environment for investment, as it is essential to ensure long-term effects. By contrast, current actions are focused primarily on the area of survival aid. Piotr Matczuk (World Bank Group) was more direct in his response – he highlighted the gap between, on the one hand, the estimated value of the losses and the resources needed to rebuild the country, and, on the other, the resources available within the budgets of international institutions, pointing to the catalytic role of these institutions. The EBRD representative shared this view. The Ukrainian portfolio of this institution amounts to about USD 5 billion (of which 3 have already been invested in the last two years). However, compared to the country's needs, this is insufficient to cover all the necessary expenses. To remedy this, both the mobilization of the private sector, and the creation of an appropriate regulatory framework to increase the certainty of foreign investment are necessary.

The final element of the conference was a speech by Anna Ackermann (Policy analyst, Green Reconstruction of Ukraine, International Institute for Sustainable Development), who began with an outline of the damage estimates resulting from the Russian invasion on Ukraine. Direct infrastructure damage is estimated at USD 150 billion, and the World Bank in February this year "conservatively" calculated that around USD 411 billion is needed for reconstruction. In the environmental context, damages are estimated at USD 56 billion; however, this valuation does not include pollution or its negative effects on public health. Using the example of the Kachov Hydroelectric Power Station, destroyed by Russian troops on 6th June 2023, Anna Ackermann presented the decision-making process for the reconstruction of its key components. Environmentalists have long criticized the Kachov dam, and there are now discussions about whether, and if so how it should be rebuilt on the Dnieper River. Green restoration should follow several principles, including integration of environmental protection into all sectors, adherence to the principles of the European Green Deal, efficient management of funds, and serving the Ukrainian public. In order to improve the implementation of restoration projects, the Digital Restoration EcoSystem for Accountable Management (DREAM) portal has been set up to facilitate transparency in the use of funding, compliance with European standards, and the exchange of knowledge and experience. Ukrainian companies should be at the centre of these activities, and only this can lead to a real economic recovery of the country's economy. It is worth mentioning that around 90% of the materials needed for reconstruction are to be provided by domestic production. "Reconstruction is not a question of the future, it has already begun", Anna Ackermann added in conclusion, which provided an accurate essence of Panel II and the whole conference.

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