

Research Project Proposal on

LEADING THE SUSTAINABLE TRANSITION: MULTILATERAL FINANCIAL INSTITUTIONS
AND SUPPLY CHAINS GOVERNANCE
(2024 - 12 months)*Objective and expected outcomes*

The objective of the project is to examine the role that finance and, particularly, multilateral financial institutions such as European Investment Bank will play in helping business pursuing ESG goals, thus supporting the sustainable transition of global value chains.

In light of the current and forthcoming EU legislation on sustainability reporting and due diligence obligations, business operating in the single market are called upon the achievement of the Union's transition to a climate-neutral and green economy in line with the European Green Deal and the UN Sustainable Development Goals. The green transition represents a cost for business, but also an opportunity from an environmental, social and economic perspective; to this end, financial institutions and development banks can provide an essential contribution in terms of directing capital flows towards sustainable investments, as drivers of change within the wider framework of a European industrial policy.

It has however become clear that the sustainable transition cannot be limited to single large multinationals, but must extend to the entire supply chain. The governance of the financing relationship (stakeholder decision making, due diligence, processes, access to information and ultimately contractual set up) facilitates this process and can have a significant impact upon the value chain governance, with special regard to procurement strategies within and outside the EU market. This in turn can have an impact on desired outcome of European industrial policy for key economic sectors. Typically, green projects and sustainable finance instruments are correlated with ESG performances and Key Performance Indicators (KPI) that aim at capturing value chain activities (e.g. decarbonization strategies, non-discrimination policies, usage of recyclable materials and renewable energies). To access new investment opportunities or reduce the cost of capital also by involving multilaterals like the EIB, financial undertakings call chain leaders to have adequate qualification systems for contractual counterparties (especially in high-risk areas) and to effectively monitor the performances of suppliers along the supply chain.

The correlation between green projects, financing relationships and supply contracts is therefore at the core of this research proposal. In particular, this exercise will mainly consist of evaluating: 1) how different forms of financing sources for green projects shape the role of parties

(financiers, chain leaders, suppliers) in the supply chain; *ii*) what reporting mechanism should be put in place to ensure the benchmarking of credible commitments of the value chains; *iii*) what control can or shall multilateral financial institutions exercise over the allocation of resources and what measures and remedies can be used to prevent, monitor or correct non-compliance with the abovementioned commitments.

The observation of current practices as well as their comparative analysis in selected areas of interest (a.o., global value chains sourcing 'critical raw materials', access to technologies, logistics, circular value chains) will complement the current debate on EU industrial policy and help businesses and financing institutions improve their ESG strategies. On the background of consolidating knowledge on innovative instruments for the expected transition, this research is of **high business relevance** for multilateral financial institutions and likely to **enhance thought leadership** of, development banks and, with specific regard to the European Union, the European Investment Bank as the «EU Climate bank» (EIB Group Climate Bank Roadmap 2021-2025), also in light of the recent ruling of the European Court of Justice on the accountability of EU institutions for environmental-related actions (ECJ, Joined Cases C-212/21 P and C-223/21 P, 6 July 2023, ECLI:EU:C:2023:546). It will provide indications to help the European Investment Bank contribute with evidence-based suggestions to the European policy dialogue in line with the 2023 **Strategic Foresight Report**, 'Sustainability and wellbeing at the heart of Europe's Open Strategic Autonomy'.

In conclusion, the still partial and uncertain regulatory framework calls for a **strategic foresight** from business and multilateral financial institutions, oriented to further investigating the intersections between sustainable finance and value chain governance. The expected outcome is to ensure a virtuous cycle between supporting long-term investments on sustainable transition and simultaneously creating new value for companies, at the same time paying due regard to economic sustainability and profitability.

Timeline and milestones

The activities of the project are intended to be structured over four quarters in 2024.

The first trimester will be devoted to the collection of the most relevant practices within the EIB ecosystem, focusing on two or maximum three projects (case studies) in some of the most sensitive sectors for sustainable development, such as circular economy, energy, industry, infrastructures, transport, water, and sewerage. Specific terms of financing contracts will be put under scrutiny to evaluate their potential impact on contracts for trading goods and services within global chains. The focus will move from the analysis of contractual terms, to cover also due diligence activities during project selection phase and monitoring practices in the context of the execution.

One or more meetings or workshops (also in the form of webinar) will be organized during the second trimester of 2024, to assess the scope and the limits of current practices, as a starting point for an open discussion between UniTrento and EIB teams, potentially including the participation of international experts, industry representatives, and scholars. In this context, UniTrento will act as a collaboration hub, that would gather experiences from global supply

chains in the selected sectors to draw some preliminary remarks on best practices, guidelines, and potential attention points.

The second semester of 2024 will be devoted to the discussion of the preliminary results and the dissemination plan, which will include a final conference with the participation of scholars, EIB representatives, and other EU and international institutions potentially involved in this area (3rd trimester 2024). As part of the dissemination plan, the research developed within the project and the inputs received during the discussions will be published in a dedicated book or essays in international journals, edited by prestigious publishers (for instance, Edward Elgar Publishing) (4th trimester 2024). In both respects (international conference and publication), the project dissemination will build on the international standing of UniTrento to consolidate the transnational and interdisciplinary dimensions of the proposed project.