Consultation on the Renewed Sustainable Finance Strategy (The European Green Deal)

This is EMN and MFCs consultation response to the European Commission's Consultation on the Renewed Sustainable Finance Strategy.

This consultation is very extensive, spanning 102 questions, targeted at a broad spectrum of stakeholders. In order to be as constructive as possible, we will focus on a small number of higher quality responses to specific questions, and leave those questions blank that are less connected to the microfinance sector.

In practice, the consultation response was submitted through the digital portal of the European Commission.

Section 1: Questions addressed to all stakeholders

Question 1-5 (no comment)

Section 2: Questions targeted at experts

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years? (box, 2000 char)

Challenges:

1. **The traditional model of long-term employment is being challenged** more and more, through various types of disruptions. EU citizens are being presented with the need to reorganise themselves on a continuous basis, and find new ways of contributing to the economy to help create value. Self-employment has emerged as one of the foremost ways of achieving this, but the regulatory frameworks for self-employment in many countries lead to precarious situations, lack of predictability, and situations that impact the poorest the worst. As a result, we see an increase in financial and social exclusion.

2. **Income inequality has been steadily getting worse**, with the top earners in our economies pulling capital towards themselves in an unsustainable manner. The hollowing out of the middle class, the rise of platform work, and an incredibly globalised trade landscape mean that the tensions between rich and poor are set to manifest heavily in the coming years. Besides other measures pushing for equality, ambitious and structural recognition of the need for financial inclusion and inclusive entrepreneurship is needed.

3. Lack of resources, time and knowledge for the additional reporting obligations related to the Sustainable and Climate related Disclosures.

Opportunities:

1. Through the EU Action Plan for the Social Economy, there is scope for more ambitious mainstreaming of supportive regulation for entrepreneurship, giving access to high quality entrepreneurship in an inclusive manner.

A first example of such an initiaitve was in the European Commission's 2007 communication on microfinance. In the 2007 communication, the EC expressed the need for EU member states to put into place more supportive measures for entrepreneurship and encourage microfinance. Since then, some member states have advanced on this, but there is still a long way to go. **The new Action Plan would be the right place to take this initiative to the next level.**

Question 7 (no comment)

Question 8: The transition towards a climate neutral economy might have socioeconomic impacts, arising either from economic restructuring related to industrial decarbonisation, because of increased climate change-related effects, or a combination thereof. For instance, persons in vulnerable situations or at risk of social exclusion and in need of access to essential services including water, sanitation, energy or transport, may be particularly affected, as well as workers in sectors that are particularly affected by the decarbonisation agenda. How could the EU ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts? (box, 2000 chars)

The crucial objective here is to offer people who suffer from such disruptions the tools to organise a new and better life for themselves. This includes ensuring they do not fall into poverty, and giving them a range of options to make a new place for themselves in the economy.

The EU green deal will need to invest in offering ways to transition from jobs in affected sectors to other sectors. One such tool is by encouraging entrepreneurship and reskilling, through offering financial tools (e.g. credit, grants, equity) for the purpose of generating economic activity – i.e. microcredit.

The microcredit sector has been working to this goal since its inception, offering credit as a tool for empowerment to people who do not have access to other means of finance. Under the EU Employment and Social Innovation programme this has been recognised as a vital tool to support policy objectives of inclusive employment, and EU budget supports the sector through guarantee instruments (amongst others), which strongly leverage the impact of the public funds invested.

Beyond business credit, it will also be important to finance and support the transition of vulnerable private households related to energy efficiency (e.g. change of heating system, insulation, change of the old car for a more green etc.). Furthermore, there will be a higher need for requalification financing due foreseeable job losses, which will in particular affect vulnerable client groups. In this respect the regulatory framework is needed to support personal microloans and to consider the aspect of temporary job loss and income drop, in particular due to Covid-19 crises. Microloans can support vulnerable clients within the green transition and to cover pending financial obligations (e.g. housing / rent or job qualification costs).

Microfinance practitioners stand ready to do their part in aiding during the green transition as well, and look forward to seeing the programmes set up as part of it.

Question 9 (no comment)

Question 10: Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

Question 11 (no comment)

Question 12: In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

Any upcoming regulations on the sector must be proportionate regarding their size, allowing them the needed flexibility to enable them to continue financing the social economy. It could be useful to promote reduced capital requirements for finance to social and sustainable activities. Moreover, this should be combined with local incentives. The European Green Deal and Green Deal Investment Plan must be translated into the appropriate local incentives and programmes, allowing these institutions to flourish.

Question 13: In your opinion, which, if any, further actions would you like to see at international, EU, or Member State level to enable the financing of the sustainability transition? Please identify actions aside from the areas for future work identified in the targeted questions below (remainder of Section II), as well as the existing actions implemented as part of the European Commission's 2018 Action Plan on Financing Sustainable Growth.

We regret to see that many countries still do not leverage the capacity of microcredit fully, either because their policy framework forbids it, or they set too high thresholds to entry. Echoing the 2007 EC communciation on microcredit, we would request that the EC hosts a dedicated event for policymakers of member states. At this event policymakers would exchange best practices on enabling microcredit.

1. STRENGTHENING THE FOUNDATIONS FOR SUSTAINABLE FINANCE

1.1 Company reporting and transparency

Question 14-15 (no comment)

1.2 Accounting standards and rules

Question 16 (no comment)

1.3 Sustainability research and ratings

Question 17-21 (no comment)

1.4 Definitions, standards and labels for sustainable financial assets and financial products

Question 22-33 (no comment)

Question 34: Beyond the possible standards and labels mentioned above (for bonds, retail investment products, investment funds for professional investors, loans and mortgages, benchmarks), do you see the need for any other kinds of standards or labels for sustainable finance?

The European Code of Good Conduct for the Provision of Microcredit is a strong label that already serves as a reputable quality standard within the EU Employment and Social Innovation (EaSI) programme. When qualifying for the code, microcredit insitutions clearly play an important role in providing healthy economic circumstances for inclusive entrepreneurship. This is a crucial piece of the economic transition, and the European Green Deal would do well to incorporate microcredit providers into the scope of its work. In doing so, the Code can easily be leveraged and no new standards would need to be developed, and we can build on good practices in this area.

1.5 Capital markets infrastructure

Question 35-37 (no comment)

1.6 Corporate governance, long-termism and investor engagement

Question 38-48 (no comment)

2. INCREASING OPPORTUNITIES FOR CITIZENS, FINANCIAL INSTITUTIONS AND CORPORATES TO ENHANCE SUSTAINABILITY

2.1 Mobilising retail investors and citizens

Question 49-51 (no comment)

2.2 Better understanding the impact of sustainable finance on sustainability factors

Question 52-53 (no comment)

2.3 Green securitisation

Question 54-56 (no comment)

2.4 Digital sustainable finance

Question 57-59 (no comment)

Question 57. Do you think EU policy action is needed to help maximise the potential of digital tools for integrating sustainability into the financial sector?

Yes
No
Don’t know / no opinion / not relevant

In particular, digitalisation has the potential to empower citizens and retail investors to participate in local efforts to build climate resilience. For instance, M-Akiba is a Government of Kenya-issued retail bond that seeks to enhance financial inclusion for economic development. Money raised from issuance of M-Akiba is dedicated to infrastructural development projects, both new and ongoing.

Question 58. Do you consider that public authorities, including the EU and Member States should support the development of digital finance solutions that can help consumers and retail investors to better channel their money to finance the transition?

Yes
No
Don't know / no opinion / not relevant

Question 59. In your opinion, should the EU, Member States, or local authorities use digital tools to involve EU citizens in co-financing local sustainable projects?

Yes
No
Don't know / no opinion / not relevant

2.5 Project Pipeline

Question 60-64 (no comment)

Question 65: In your view, do you consider that the EU should take further action in:

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? **Yes**/No
- If necessary, please explain your answer. [Box max. 2000 characters]

Especially for the self-employed and micro-entrepreneurs, it is crucial that they are provided the support and flexibility that is needed to innovate in the economy. On the positive side this contributes to social mobility and a more dynamic economy, and on the other side it also mitigates the risk of falling into poverty. Entrepreneurship in Europe is still too often a precarious path, which stifles innovation.

2.6 Incentives to scale up sustainable investments

Question 66, 68 (no comment)

Question 67: In your view, to what extent would potential public incentives for issuers and lenders boost the market for sustainable investments? Please express your view on the importance of financial incentives by using a scale of 1 (not effective at all) to 5 (very effective).

5

Question 69: In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

Yes, support investment readiness programs and non financial support services

2.7 The use of sustainable finance tools and frameworks by public authorities .

Question 70-73 (no comment)

Question 72: In particular, should the EU Taxonomy play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.

What role do you see for a social, climate and environmental taxonomy?

The EU taxonomy must bring together social, in addition to climate and environmental, in order to be called "Sustainable". Even if initially the taxonomy has been prepared for private investments, but also for PPPs and for public entities, the EU and Member States, so it could have implications in the EU spending programmes.

EU taxonomy must study and comprise social topics: SDGs, Social Risks and opportunities, UN Guiding principles, access to social products/services and civil conflict transformation. The EC with the support of a technical group of experts should set up and define social standards including at least the following issues:

- sectors with social risks,
- sectors with social benefits,
- social threshold,
- social do no significant harm,
- social minimum safeguards

- social indicators

2.8 Promoting intra-EU cross-border sustainable investments

Question 74 (no comment)

2.9 EU Investment Protection Framework

Question 75 (no comment)

2.10 Promoting sustainable finance globally

Question 76-81 (no comment)

3. REDUCING AND MANAGING CLIMATE AND ENVIRONMENTAL RISKS

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82-83 (no comment)

3.2 Financial stability risk

Question 84: Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. What are in your view the most important channels through which climate change will affect your industry? Please provide links to quantitative analysis when available.

♣ Physical risks, please specify if necessary [BOX max. 2000 characters]

♣ Transition risks, please specify if necessary [BOX max. 2000 characters]

♣ Second-order effects, please specify if necessary [BOX max. 2000 characters]

♣ Other, please specify [BOX max. 2000 characters]

Unemployment, precarious jobs, fragile self-employment, lack of economic mobility and exacerbated income inequality all contribute to an overall decrease in general welfare that could be politically destabilising and lead to political crises. The economic changes caused by the green transition will inherently tend to negatively affect the poor more than the rich, unless specific policies are put in place that counteract this tendency. Microfinance serves clients at risk of financial and social exclusion, and in doing so it works to bring more people into the financial system – a goal that will only be possible if the financial system itself is designed to be more inclusive and fair.

Question 85: What key actions taken in your industry do you consider to be relevant and impactful to enhance the management of climate and environment related risks?

♣ Please identify a maximum of three actions taken in your industry [BOX max. 2000 characters]

Microfinance brings potentially excluded people into the financial system, giving them a way to contribute constructively to the economy. It provides flexibility and alternatives for people whose employment security is threatened (all too often related to effects of globalisation, industrialisation and digital disruption, but potentially also due to the green transition). As such, microfinance is part of the security net that provides safety and options to those displaces by the transition.

Question 86-94 (no comment)

3.3 Credit rating agencies

Question 95-97 (no comment)

3.4 Natural capital accounting or “environmental footprint”

Question 98 (no comment)

3.5 Improving resilience to adverse climate and environmental impacts14

Question 99-102 (no comment)

4. ADDITIONAL INFORMATION

Should you wish to provide additional information (e.g. a position paper, report, further quantitative evidence, other) or raise specific points not covered by the questionnaire, you can upload your additional document(s). Please be aware that such additional information will not be considered if the questionnaire is left completely empty.

(no comment)