

CROWDFUNDING AND SUSTAINABLE FINANCE

Response to the European Commission's public consultation
on Sustainable Finance

European Crowdfunding Network AISBL

15/07/2020

ABOUT ECN

The European Crowdfunding Network AISBL (ECN) is an independent, professional network promoting adequate transparency, (self) regulation and governance while offering a combined voice in policy discussion and public opinion building. ECN was formally incorporated as an international not-for-profit organisation in Brussels, Belgium in 2013.

We execute initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology, including crypto assets and distributed ledger technologies. We aim to increase the understanding of the key roles that crowdfunding can play in supporting entrepreneurship of all types and its role in funding the creation and protection jobs, the enrichment of European society, culture and economy, and the protection of our environment.

In that capacity we help developing professional standards, providing industry research, as well as, professional networking opportunities in order to facilitate interaction between our members and key industry participants. ECN maintains a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.

ECN WORKING GROUP ON SUSTAINABLE FINANCE

The ECN Sustainable Finance Working Group has been established in January 2020 with the aim of mapping existing best practices for crowdfunding and sustainable finance, and exploring the potential of integrating crowdfunding platforms in the mainstream scenario of sustainable investments. The working group facilitates the dialogue between crowdfunding platforms, capital markets players, and European institutions, with the aim of encouraging a joint effort towards the design and implementation of sustainable funding schemes.

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ECN RESPONSE TO THE CONSULTATION

Sustainable Finance differs from traditional finance by taking due account of environmental and social considerations as part of the investment decision. In the EU's policy context sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. It also encompasses transparency on risks related to factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

Crowdfunding allows for such considerations in general, but can be used to specifically address particular environmental or social issues while involving relevant communities and citizens. With the European Green Deal, sustainable finance is key in developing its seven policy areas, and crowdfunding has already made a footprint in some of them. With a harmonised regulatory framework for crowdfunding about to be implemented, it is time to develop the industries footprint in the European Green Deal and establish crowdfunding as a key tool in the sustainable finance mix.

ON THE CREATION OF THE EC EXPERT PLATFORM ON SUSTAINABLE FINANCE

We welcome the EC initiative for the creation of a EU Platform on sustainable finance. The foreseen composition of such platform could provide a sound structure to ensure a distributed and democratic long-term governance of future EU progress in both the Green Deal and the Green Deal investment Plan. Focusing on experts that will represent “relevant private stakeholders”, however, the selection of members of the Platform should be aimed at representing the entire spectrum of active financial players on the market. We suggest to broaden the scope of represented financial players as much as possible, as to enable the Platform to perform its four main tasks with an holistic approach. Namely, the increasing relevance in terms of facilitating access to finance to SMEs, as well as in terms of transacted volumes in the EU, are clear signs that the perspective of crowdfunding platforms and

microfinance providers should be represented. More specifically, several crowdfunding platforms in EU have already structured their business models as to promote investments and loans in businesses that have a clear focus on sustainability (renewable energies, energy efficiency, blue economy, social impact, etc.), and could provide relevant insights on how to perform due diligence, monitoring, and reporting procedures that include, on equal footing, both financial and sustainable dimensions.

ON SUPERVISION AND AUTHORISATION CRITERIA FOR EU GREEN BOND STANDARDS VERIFIERS

We support the TEG recommendation that oversight and regulatory supervision of external review providers eventually be conducted via a EU centralised system organised by ESMA. Any voluntary registration process that aims at ensuring a smooth and harmonious transition in a three-years time period should however respond to a common reference framework, as to avoid fragmentation among EU Member States. The absence of standard criteria across the EU would likely favour the uptake of EU GBS in the short term, but uneven sets of rules and criteria would hinder the transition to a harmonised EU oversight through ESMA's supervision. Ultimately, the lack of common reference standards for all market players would further delay the legislative path leading to the foreseen ESMA-led supervision.

ON THE INTRODUCTION OF THE TAXONOMY FOR INVESTMENT DECISIONS

The current structure of the EU Taxonomy is primarily thought of for financial products issued by institutions that move in the traditional space: banking institutions, asset managers, investment funds, pension funds. From the crowdfunding industry's perspective, the application of criteria laid out in the EU Taxonomy regulation might become extremely relevant, as equity and lending platforms offer lenders and investors the opportunity to directly assess the investment opportunity without intermediation. If the disintermediate nature of crowdfunding might facilitate the onboarding of an increased number of sustainable projects, doubts remain on how such criteria will be detailed by Member States. The type of companies that raise money through crowdfunding ranges, in fact, from micro to medium-

sized enterprises, and placing an excessive additional administrative burden in order for them to be aligned with the EU Taxonomy might discourage crowdfunding platforms from integrating such criteria in their operations.

Furthermore, we welcome the idea of developing a set of EU standards for sustainability-linked bonds and loans, as this financial products can express greater potential for incentivising companies to commit to sustainable growth and avoid the unfortunate “greenwashing” dynamic that has, in some cases, been developed through the twisted application of the green use-of-proceeds approach. Integrating the EU Taxonomy as one of the KPIs for sustainability-linked bonds or loans could become a significant step in order to encourage companies to adopt a more sustainable operational framework. In order to be effective, however, such inclusion as KPI should be standardised at the EU level, as to minimise different targets for companies operating in different Member States and to increase transparency and comparability between offers.

ON THE CURRENT AND FUTURE CAPITAL MARKETS INFRASTRUCTURE

From the crowdfunding industry perspective, the absence of a European secondary market for equity instruments and bonds has greatly limited the possibility of monetising retail investors’ capital, and framed crowdfunding as an illiquid market. In light of the increased relevance of volumes raised by companies that move in the wide spectrum of sustainability, we see that the full potential of crowdfunding remains unexploited, as many retail investors are hesitant to invest in illiquid assets. As liquidity remains a key feature for long term financial products such as those that fall within the scope of this consultation, the introduction of a secondary market for equity and lending crowdfunding would limit the above-mentioned negative impacts and promote an increase in capital available for companies, while promoting trust and incentivising retail investors in approaching sustainable companies. The introduction of a sustainable finance-oriented exchange, including the possibility of developing a secondary market for equity and lending crowdfunding offers would promote an increase in capital available for companies, while promoting trust and incentivising retail investors in approaching sustainable companies.

ON CITIZEN PARTICIPATION AND FINANCIAL LITERATURE

We believe that the development of more structured actions in the area of financial literacy and sustainability is of paramount importance in order to raise awareness and knowledge of sustainable finance among citizens and finance professionals.

Namely, the following initiatives and actions should be implemented through partnerships between EU institutions and key stakeholders, with the aim of promoting the emergence and establishment of a sound and fair financial ecosystem to lead the path towards sustainable investments:

- Integrate financial literacy, especially with regard to sustainability, in the training requirements of finance professionals.
- Stimulate cooperation between Member States to integrate financial literacy, especially with regard to sustainability, into the primary and secondary school curricula, possibly in the context of a wider effort to raise awareness about climate action and sustainability.
- Stimulate cooperation between Member States to include financial literacy, especially with regard to sustainability, into adult education curricular in order ensure an increase in sustainable investments and to create an overall understanding of citizens possibilities to reduce their own environmental footprint.

This should be done

- Directly, through targeted campaigns.
- As part of a wider effort to raise the financial literacy of EU citizens.
- As part of a wider effort to raise the knowledge citizens have of their rights as consumers, investors, and active members of their communities.

ECN's extensive experience in the area of capacity building, technical assistance and professional training has largely demonstrated how financial literacy is a key component for citizens and companies when it comes to crowdfunding. Results from previous and ongoing initiatives in the crowdfunding industry show that financial literacy increases investors' trust

and their ability to assess proposed offers. It is likely that the inclusion of sustainability elements in financial education initiatives will produce the same positive results and increase the available capital for Micro and SMEs in the transition towards sustainable investments.

ON THE ROLE OF PUBLIC AUTHORITIES IN SUPPORTING DIGITAL SUSTAINABLE FINANCE

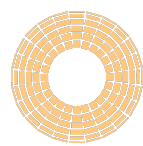
The below action could be undertaken by public authorities at any level. According to the needs expressed by the crowdfunding industry:

- risk-sharing loan schemes could help where crowdfunding platforms suffer from insufficient liquidity; public authorities' resources could then be used to magnify the lending capacity of platforms, targeting final recipients in line with the Operational Programme's priorities; (recommended for public authorities at national level)
- loan guarantee schemes could help when the public authority is willing to support the risk appetite of crowdfunding platforms, particularly when addressing vulnerable final recipients and projects with high social added value; (recommended for public authorities at national level)
- combining financial instruments with other forms of support, such as grants or vouchers, might bring several advantages:
 - it could make crowdfunding more affordable by introducing an investment grant scheme, covering a portion of the interest rates, or part funding the costs of a crowdfunding campaign;
 - it could increase the capacity of project promoters to develop sound and viable business ideas by offering vouchers for business development services, such as mentoring, tutoring and coaching.

In addition, EU centralised financial instruments are witnessing a growing number of applications submitted by crowdfunding platforms and the EIB Group has stepped up its support to this sector, as in the case of the operational loans provided by EIF to different equity and lending crowdfunding platforms focused on financing projects with a sustainable dimension and/or social impact.

The establishment of partnerships between public authorities and crowdfunding platforms has been producing a number of significant results, both in economic and non-economic terms. Availability of additional private resources is only one of the many reasons that drive public administrations in designing a match-funding scheme or co-investing alongside retail investors in crowdfunding campaigns. Increased citizen participation and sense of ownership, a return on the investment in terms of visibility and accountability in their jurisdiction, better communication with regards to perceived needs and priorities, and increased likelihood of funded initiatives' success are as strong as the economic factor when deciding on public budget allocation. The EU has a number of funding programmes that would be well suited to provide financial support in these types of partnership schemes with crowdfunding platforms, ranging from those EU programmes that are implemented through indirect management (ESI Funds under the cohesion policy), up to the future InvestEU programme.

SIGNATORIES



GODARITTY
IMPACT INVESTING

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