Position Paper

EU Taxonomy

Brussels, 30 October 2019

The transformation to a sustainable society and economy is the central challenge of our time. To that extent, the financial sector has a crucial responsibility to green up and strengthen inclusiveness in order to make our national, European and global development sustainable.

The members of the European Association of Long-Term Investors, most of them being National Promotional Banks and Institutions (NPBIs) are key in this transformation process. They assume an important role with a view to the promotion of sustainable projects and procedures, including the monitoring of their implementation. NPBIs take equal account of economic, environmental and social dimensions, bringing tangible positive impacts for local communities. In this regard, NPBIs support and foster the ambitious sustainability goals of the European Union as set out in the EU Action Plan on Financing Sustainable Growth.

NPBIs typically provide substantial financing amounts (180 bn EUR in 2018), act as anchor investors and enter and help develop new markets with no objective of profit maximisation. Thereby, NPBIs facilitate subsequent mainstreaming by private financial actors and generate important leverage to mobilise additional capital for inclusive and sustainable growth. They are best placed to facilitate the integration of sustainability considerations into the financial system due to their deep embeddedness within national financial ecosystems, their efficient articulation of public and private finance and their inherent integration of non-financial parameters into their investment policy due to their long-term investment plan. Yet again, this experience was deployed in the Investment Plan for Europe (Juncker Plan) and the European Fund for Strategic Investments (EFSI), where NPBIs have significantly boosted their financial support for sustainable infrastructure investment.

A shift of capital flows towards more sustainable economic activities has to be underpinned by a shared understanding of what "sustainable" means, based on clear impact criteria and traceable metrics regarding non-financial performance. NPBIs therefore welcome the envisaged EU taxonomy as a classification system to ensure the basis of a joint understanding of the financial sector with regards to "sustainable" activities. A univocal list of assessed and classified economic activities, based on their contribution to EU sustainability objectives, is key to harmonise and bring clarity among market participants.

In support of this endeavour and considering their specific role in the economy and involvement in sustainability, NPBIs should join the new Platform on Sustainable Finance. Their participation as strategic partners will provide additional expertise and experience in the further development of the taxonomy, ensure a fully contextualised perspective and the long-term credibility of the taxonomy. Moreover, NPBIs can significantly contribute to the Platform's objective to secure acceptance and mainstreamed usage by all financial and non-financial market participants.

At the same time, NPBIs would like to draw the attention to the following challenges, which will largely affect the practical implementation and impact of the future EU taxonomy:

Ensure a realistic level of ambition:

The EU taxonomy should foster a broad transition of economic activities towards sustainability. Whilst weak criteria could undermine this claim (greenwashing, business-as-usual), requirements which are too ambitious would only support and cement niche markets in the short and medium term. To ensure effectiveness and broad impact, the taxonomy should continue to include both low-carbon activities already in line with a 2050 net zero carbon economy and activities that are necessary to make a broad transition in accordance with a 1.5°C or at maximum 2°C scenario viable. In this regard, NPBIs welcome the principles set by the Technical Expert Group (TEG).

Integrate all dimensions of sustainability:

The initial taxonomy focus on climate and environment is reasonable. The NPBIs welcome that the taxonomy will be expanded in the future to also cover social objectives, in order to address all sustainability dimensions and ensure a fair transition that leaves no-one behind.

Ensure practical viability:

Viability of the EU taxonomy can only be ensured by stringent and binding criteria. In order to keep these criteria aligned with state-of-the-art technologies, they should be subject to a continuous, inclusive and adaptive process. Furthermore, it will be key to ensure that the taxonomy criteria are clear enough to enable smooth implementation and handling by enterprises and financial institutions, especially by those with no or limited previous experience of such approaches. It is important to note that access to relevant information will also be a significant challenge for investors. Therefore, as much as NPBIs advocate for stronger non-financial reporting requirements for large corporates (such as more detailed and certified reports, explicit integration of climate risk, etc.) we emphasise that the usability of the taxonomy as regards to SMEs should be addressed and tackled in a resolute manner. An adequate approach and/or a system of incentives to keep SMEs within the range of the taxonomy is necessary. Otherwise, if it is deemed too complicated, burdensome or expensive, those financial market participants willing to offer sustainable financial products might not consider SMEs and thereby de-facto exclude them from the taxonomy. This would impede the necessary broad transformation process to which SMEs are an essential building block.

Finally, applicability of the taxonomy requires sound and streamlined verification mechanisms with clear processes and defined responsibilities, while procedural requirements must not only be compatible with larger scale project financing but also with small-scale lending and the related processes, which again are paramount for SMEs.

The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

The 29 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of €1.8 trillion. The Association promotes and attracts quality long- term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level[1]. The European Investment Bank (EIB) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[2].

[1] Oesterreichische Kontrollbank (OeKB) Austria, Federal Holding and Investment Company (SFPI) Belgium, Bulgarian Development Bank (BDB) Bulgaria, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zarucni a Rozvojova Banka (CMZRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National Bank of Greece (NBG) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, Public Investment Development Agency (VIPA) Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Malta Development Bank (MDB), Malta, Netherland Investment Agency (NIA) Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Instituição Financeira de Desenvolvimento (IFD) Portugal, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

[2] Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey

European Association of Long-Term Investors (ELTI) a.i.s.b.l.
Rue Montoyer 51 – B-1000 Brussels (Belgium)
Transparency Register Identification No.: 977980112556-82
secretariat@eltia.eu; www.eltia.eu