



Financing the Future We Want:

Our agenda for a sustainable and inclusive EU financial sector

Today's interconnected environmental and social crises are enabled by an extractive financial sector that prioritises profit at the expense of people and planet.

In 2022, global carbon emissions reached a record high, and the world is likely to pass the 1.5C limit for global warming this decade¹. Biodiversity has continued to decline at a catastrophic rate². Social issues such as increasing inequality, precarious working conditions, and inadequate human rights protections continue to be deprioritised, even as inflation has soared.

The financial sector includes banks, insurers, and investors, who all manage our money in various ways. The sector currently finances economic activities that accelerate climate change, degrade ecosystems, and expose communities to avoidable risk, economic instability, and human rights violations. To enable a new economy that is fair and just, enhances prosperity, and operates within planetary boundaries, we need a value-oriented and regenerative financial system.

We must harness the financial sector's potential to serve our planet, workers, communities, consumers, and future generations, and ensure Europe's resilience and competitiveness.

European Union (EU) institutions and governments have introduced rules to address these risks and better align the financial sector with sustainability commitments. Many of these rules derive from international commitments such as the Paris Climate Agreement and the Sustainable Development Goals, both of which set ambitious targets to be met by 2030. These measures are important, but they fall short of what is needed to drive the transition to a sustainable economy and close green investment gaps.

The next EU Commission (2024–2029) will have the last opportunity to keep crucial 2030 targets within reach.

The incoming EU Commission must build on the steps that have already been taken, ensure policy coherence and implementation, and fix inadequate measures. This will push the financial sector to reorient its investments and support the transition to a zero-carbon, just, and inclusive economy.

At the same time, the EU needs a comprehensive policy framework that regulates the real economy and deploys public finance effectively to drive systemic economic and social change. Lastly, these rules will need to be accompanied by strong enforcement systems to ensure compliance across the EU.

Our recommendations for the incoming European Commission on sustainable finance are:

Accelerate investments in Europe's transition to a zero-carbon and inclusive economy

Investments are needed to drive the transition to a zero-carbon, climate resilient, sustainable, and inclusive economy.

The EU has taken important steps to stimulate finance for “green” and “social” activities by developing the environmental taxonomy and issuing social bonds. It also increasingly acknowledges the link between finance and biodiversity loss. However, most of the economy is not yet sustainable and needs to transition.

The European Commission needs to expand the environmental taxonomy to clearly define “transition” activities that can improve within set timeframes (e.g. building renovation). **Investments, in the form of transition finance, need to be stimulated to accelerate change in the real economy. Mandatory transition plans both for the financial sector and real economy need to be mainstreamed** and aligned across relevant pieces of legislation to ensure coherence.

The Commission also needs to develop a “harmful” taxonomy to define which business activities harm the climate and the environment and cannot transition. Such activities (e.g. thermal coal mining and peat extraction) need to be decommissioned in a timely fashion and their expansion must stop immediately. **Investments into these harmful activities must end.**

Finally, to ensure the transition is inclusive, policy makers should define socially sustainable financial activities and provide investors with guidance on how to comply. This will facilitate the channelling of resources to promote human rights and social objectives.

Curb greenwashing and social washing

Greenwashing and “social washing” (misrepresenting an investment product as more environmentally sustainable, or in line with social objectives, than it really is) is a barrier for consumers, small companies, and other market participants to invest sustainably. It undermines trust, prevents responsible consumption, and can delay the actions needed to achieve sustainability and social objectives. **The European Commission needs to get tougher on curbing greenwashing and social washing.**

To address this, we call for the development of minimum mandatory criteria that define what constitutes an investment product that is sustainable, in line with social or environmental objectives, or contributes to either³. These criteria need to be tightened regularly and effectively supervised. Sanctions for greenwashing and social washing should be strengthened and enforced. In addition, it is essential to **maintain a high level of ambition in sustainability reporting standards** to ensure that all companies, across all sectors and of all sizes, consistently report high-quality and transparent information.

Set strong standards for investor due diligence and engagement

Investors exert significant leverage over a broad range of sectors and business activities and have a responsibility to prevent and address human rights and environmental risks in their portfolios. There is an urgent need for investors to conduct meaningful due diligence to adequately incorporate sustainability risks across their entire value chain and support strong human rights and environmental protection.

Investor engagement is another way in which investors can influence the corporations they invest in to take a long-term view and promote greater adoption of sustainability measures. However, investors are not making sufficient use of it and current EU policies fail to promote consistent and strong engagement practices.

To address these gaps, **we call for mandatory investor due diligence obligations on an ongoing basis for their full value chain and a clear standard for investor engagement** with the companies they invest in. These measures should focus on driving behaviour change in the real economy, enhancing transparency, and setting clear rules on what good practice looks like, building on key tools to steward more sustainable business activities and fight green- and social washing. Lastly, we call on the European Commission to remove barriers to collaborative shareholder engagement on sustainability.

Account for the risks of harmful investments

While we ultimately support a ban on investments in “harmful” business activities, in the meantime, financial regulation should adequately recognise the risks of investing in activities that cannot transition, that destroy nature, or that are not in line with respect for human rights and other social objectives. The first important step to achieve this is **introducing higher capital requirements for fossil fuel-related exposures**. This means that for every Euro that insurers and banks invest into new fossil fuel-related activities, they should have one Euro equivalent of their own funds to guard against risks of stranded assets and related future losses. This will prevent taxpayers or governments from having to pay the bill.

We also support **higher taxation on profits made from direct and indirect investments in, or loans to, environmentally and socially harmful activities**. Together, higher capital requirements and higher taxation would better account for the full costs, impacts, and risks of such harmful activities. As such, they would make financing unsustainable projects less profitable and reduce their attractiveness.

Remove obstacles for consumers to invest sustainably

Individual Europeans hold record amounts of capital in savings. 62% of them (also defined as retail investors) want to invest sustainably⁴, but they face major obstacles. Consumers are often sold financial products that do not match their sustainability preferences, for multiple reasons. Sustainability preferences are currently poorly defined across legislation and **improved guidance from supervisors would help to reduce ambiguity.** In parallel, financial advisors lack expertise and training, and receive fees to sell certain products.

To help them invest sustainably, **consumers need complete, clear, accurate, and bias-free information on the costs and financial and sustainability returns of the investment and insurance options available to them.** These options should also always feature a sustainable alternative. **All fees (or so-called inducements) provided to financial advisors to sell a certain product need to be banned.** This would make sure consumers get unbiased advice on investment and saving options and can choose products which reflect their preferences, including on sustainability.

Enhance accountability and sustainability expertise in corporate governance practices

Corporate governance is still too often focused on maximising the wealth of shareholders. This corporate short-term thinking has harmful impacts on sustainability, and broader negative societal and macroeconomic implications⁵.

We believe that financial and non-financial companies and their directors should be held accountable for how their business decisions affect the natural environment and society. **Better regulating corporate lobbying, which weighs EU policy discussions towards short-term industry interests, would be a good step in this direction.**

Additionally, as remuneration of management plays a key role in incentivizing such short-term focus, **variable remuneration should be linked to the achievement of sustainability goals.** This means eliminating key performance indicators that encourage economic activities with harmful impacts (e.g. paying oil company executives according to production and exploration metrics). **Finally, the level of sustainability competence and expertise of the boards of directors should be enhanced:** this will support a shift towards the adoption of a long-term approach which values environmental and human rights considerations as strategic factors to achieve well-being and prosperity in the real economy.

Endnotes

- 1 International Energy Agency (2002), “CO2 emissions in 2022”. Available online at: <https://www.iea.org/reports/co2-emissions-in-2022>; McGrath, M. (17 May 2023), “Global warming set to break key 1.5C limit for first time”, BBC. Available online at: <https://www.bbc.com/news/science-environment-65602293>
- 2 WWF (2022) “Living Planet Report 2022”. Available online at: <https://www.wwf.org.uk/sites/default/files/2023-05/WWF-Living-Planet-Report-2022.pdf>
- 3 BEUC, E3G, Finance Watch, ShareAction, Transport & Environment and WWF (21 February 2022). “Joint NGOs and consumer recommendations for minimum criteria for sustainable investments and products with ESG characteristics”. Available online at: <https://shareaction.org/policies/joint-ngos-and-consumer-recommendations-for-minimum-criteria-for-sustainable-investments-and-products-with-esg-characteristics>
- 4 European Union (2022). “Eurobarometer: Retail Financial Services and Products”. Available online at: <https://europa.eu/eurobarometer/surveys/detail/2666>
- 5 E&Y (2020). “Study on directors’ duties and sustainable corporate governance”. Available online at: <https://op.europa.eu/en/publication-detail/-/publication/97cac494-d20c-11ea-adf7-01aa75ed71a1/language-en>

About the Manifesto

This EU Elections Manifesto was developed and endorsed by a group of European NGOs convened by the European Responsible Investment Network (ERIN). ERIN, coordinated by ShareAction, aims to strengthen the voice of European civil society, by working together to improve accountability and investment practices, and to mobilise the power of investors to promote sustainable corporate conduct. We take a collaborative approach to capital markets campaigning, jointly building a fair and responsible investment system. For additional information about the EU Elections Manifesto campaign, including how to become a signatory or supporter, please contact Candice Astorino at: candice.astorino@shareaction.org.

Signatories

Initial list of signatories (as of 26 October 2023):

1. ActionAid Denmark (Mellempfolkeligt Samvirke)
2. Ansvarlig Fremtid
3. BankTrack
4. BETTER FINANCE
5. Both ENDS
6. Bürgerbewegung Finanzwende
7. Ekō
8. E3G
9. European Federation of Ethical and Alternative Banks and Financiers (FEBEA)
10. Facing Finance e.V.
11. Fair Finance International
12. Finance Watch
13. Frank Bold
14. Global Witness
15. Milieudefensie - Friends of the Earth
16. Netherlands PAX
17. Positive Money Europe
18. ShareAction
19. Swedwatch
20. Transport & Environment
21. urgewald
22. WWF European Policy Office