

Financing the Revolution? How the Convergence of Investors and NGOs is Driving EU Sustainable Finance Reforms

1. Introduction: Growing interest in sustainable finance

The financial industry has embraced the idea of sustainable finance as a business opportunity. The EU sustainable finance initiative has widespread industry support and multiple member states have led the way with important national legislation. An example is France with its Energy Transition for Green Growth Act and Article 173 that introduce measure to integrate climate change into the decision-making process of financial institutions (Legifrance, 2019). International initiatives, such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (Financial Stability Board, 2019), Eurosif (Eurosif, 2019) and its national member organisations as well as the Principles for Responsible Investments (PRI) (PRI, 2019) are mobilising multiple actors from the financial industry, academics, civil society organisations, and even trade unions.

Within the industry, however, it is not unusual for a single firm to retail fossil free investment funds while at the same time offer commercial loans towards fracking, coal, and Arctic drilling. This paradox is underpinned by a major gap in how – and if at all, sustainability has been infused into primary and secondary markets. This paradox calls for a serious rethinking of the sustainability transition in finance (Urban & Wójcik, 2019).

Moreover, the discussion of sustainability has mainly been in the context of 'weak' sustainability (e.g. Neumayer, 2003), which has resulted in a 'business as usual' agenda with a strong belief in technological solutions (e.g. Ekins et al., 2003; Roome, 2012). In this study, I take use of what could be denoted 'strong' sustainability: an approach that '[i]s more radical in orientation, constituting a new paradigm based on systems-thinking and organisational and social innovation' (Roome, 2012, p. 624). The starting point is the natural science identification of planetary boundaries, within which all human activity must be positioned to ensure a safe operating space for humanity (Rockström et al., 2009; Steffen et al., 2015). The sustainability challenge is here conceptualised as securing the 'social foundation' of agreed minimum social standards for humanity, now and in the future, within planetary boundaries (Leach, Raworth, & Rockström, 2013). Strong sustainability accordingly requires the recognition of the complex relationships and connections between different parts of a system, their functions, the system as a whole (Ackoff, 1999), and environmental characteristics such as irreversibility, uncertainty and the existence of critical components of natural capital (e.g. Daly, 1991; Ekins et al., 2003).

In the case of finance research, there are epistemological, ontological and methodological tension separating sustainable finance from standard financial theory, and there is a need to provide methodological alternatives permitting the inclusion of the former in modern finance research (Lagoarde-Segot, 2019). One approach to unpack this problem and why we see an increased attention around sustainable finance may be to use theories of corporate financialisation; 'the increasing dominance of financial actors, markets, practices,



measurements and narratives at various scales, resulting in structural transformation of economies, firms (including financial institutions), states and households' (Aalbers et al., 2015). In other words, profit making is increasingly occurring through financial channels rather than through non-financial strategies in the real economy, such as trade and commodity production (Krippner, 2011).

In relation to the phenomenon of corporate financialisation, it is interesting that the financial crisis in 2007-2008 seemed to have helped to re-focus the policy-makers' attention towards the promotion of long-term finance. This has had a knock-on effect on EU financial market policies and it has opened up for a discussion to adopt legislation to foster more long-termism (e.g. Ahlström, 2019).

This study therefore investigates the emergence of the EU sustainable finance agenda as an antidote to the failures of the financial system. Empirical examples of international actor networks, their convergence, and different interests will be used, and I will unpack these phenomenon in relation to regulatory change that we see in EU financial market law and policy.

I ask the following research questions:

What explains the emergence of EU sustainable finance policies during 2008-2019?

More specifically, to what extent can the emerging sustainable finance policy agenda lead to strong sustainability and systemic change?

These findings are expected to contribute to academic, policy and practitioner debates.

2. Intermediaries in the EU sustainable finance regulatory process

The business case of sustainable finance is particularly clear for certain frontrunner pension funds and asset managers that lead the way and have interests in the reward coming from creating a level playing field. In addition, civil society organisations have come to be increasingly dominant in this field of policy, with competence and capacity to contribute to shape the agenda. Interestingly enough, the financial industry and civil society seem to collaborate well. This phenomenon may well be an example of 'Bootleggers and Baptists' collaboration, where actor groups with different goals and mission collaborate in order to achieve regulatory change (see Yandle, 1983).

This collaboration patterns are interesting. I argue that the financial industry has features of a what could be called a phenomenon of 'grand old men' and 'technocrats', academics and practitioners that construct and transform systems as they assert a particular mix of 'symbolic capital'. These old men represent age and experience, technical know-how, theoretical sophistication, ability and prestige (following Dezalay's and Garth's (1995) work on 'merchants of law as moral entrepreneurs'). The 'elitist' group of finance professionals are however increasingly collaborating with civil society. The institutional-actor relations in sustainable finance is of particular interest due to the speed these activities have been mobilised and the unexpected patterns of collaboration between different civil societies organisations and between investors and civil society.



Simultaneously, it needs to be noted the special context of the EU and its legal structures ranging in forms and degrees from supranational to intergovernmental means that it is useful to apply the notion of “multilevel governance” (e.g. Schout and Jordan 2005; Yee, 2004). Not exclusive for the EU, but in particularly useful in the context of the EU, is this notion of governance as it takes place across geographical and organizational scales both horizontally and vertically, meanwhile multiple actors with different forms of authority are involved (Hooghe and Marks 2003). I therefore apply this notion of multi-level governance structures as in “the sharing of competent authority across several levels of government” (Koontz and Newig, 2014, p. 594).

However, policy-making has to be first negotiated, drafted and promulgated. Thereafter, it is possible for the relevant institution to promote implementation to their target sector, monitor compliance, and ensuring enforcement (Abbott & Snidal, 2009). An established approach to study the regulatory process is their analytical framework, which consist of a) Agenda-setting, b) Negotiation of standards, c) Implementation’, d) Monitoring and Enforcement’, abbreviated as ‘A N I M E’.

Expertise and operational capacity are crucial for effectiveness in the regulatory process. However, it is difficult for most non-state actors to deliver all the competencies on its own. Therefore, actor collaboration becomes key so that all needed competencies can be assembled (Abbott, & Snidal, 2009). The recent and still on-going process of the EU Sustainable Finance Initiative is a case where this framework seems to be especially useful, as there is such strong corporate and NGO activity in this regulatory process. This activity is furthermore consolidated through the multiple stakeholder process where the EC established the High-Level Expert Group (HLEG) as well the Technical expert group on sustainable finance (TEG) (European Commission, 2019a; 2019b).

3. Materials and Methods

In order to understand how EU sustainable finance policies emerged during 2008-2019 and its contribution to strong sustainability goals, I will take use of a qualitative research methodology consisting of (a) process tracing and (b) semi-structured interviews.

With the process tracing method I will be able to identify and compare the causal chain (the causal process between (an) independent variable(s) and an outcome/dependent variable) of the case study; the EU sustainable finance initiative. I will be able to identify the variables that are necessary or sufficient to lead to particular outcomes of interest (Beach & Pedersen 2013). Examples of such outcomes are for example the recent vote of the European Parliament against the use of a brown taxonomy (European Parliament, 2019). These specific outcomes of interest will have to be identified simultaneously during the process tracing analysis.

I will create a dataset based on the informative archive of Responsible Investor website (responsible-investor.com, 2019), a policy document analysis from the European Commission including public consultations related to the Sustainable Finance initiative, and through studying the activities of the umbrella organisations Eurosif (Eurosif, 2019), PRI (Principles for Responsible Investments, 2019) and ERIN (ShareAction, 2019).



Secondly, I have conducted semi-structured interviews with 19 informants from international organisations, civil society organisations and the financial industry with knowledge of EU policy-making for sustainable finance. The interviewees were selected on the basis of their acknowledged expertise and by snow-ball sampling where each interviewee was asked to recommend another suitable interviewee to ensure the inclusion of representative individuals (see Arber, 2001).

4. Tentative conclusions

The analysis suggests that the financial crisis has played a significant role in creating awareness of the failures of the financial system among a wide array of actors. At the same time, processes of increased focus on finance are results of the financialisation of our economy, which is facilitated by significant corporate interest from the financial industry.

The phenomena of sustainable finance that exploded from being a small club for finance professionals to a more formalized, structured and mainstream routinized field, seems to be due to this process of financialisation, but also due to the increased leverage of the coalition of NGOs active in the regulatory process of EU Sustainable Finance. In addition, the strategy of this coalition, and especially some of its members, of collaborating with front-runner pension funds and asset managers, seems to have had forceful effects. This appears to be an example of a ‘Bootleggers and Baptists’ collaboration. While this is not a bad thing per se, this seems to impact how policies in the current context can deliver in terms of sustainability outcomes. Moreover, this seems to have limited interest in actual systemic change, and has rather facilitated a slower incremental change.

The analysis will hopefully result in a more concrete understanding of (1) how the social responsible investor (SRI) fraction of the financial industry emerged into a field of interest for mainstream actors, and (2) how this has affected the regulatory process, (3) how the identified actor configuration active in EU sustainable finance policy-making collaborate; what tension this has created between SRI and mainstream actors and resulting in phenomenon such as mergers and acquisitions within the field of SRI and ESG. Finally, (4) I hope that my findings will contribute to a better understanding of whether or not the current actor figuration and the current policy agenda on sustainable finance in the EU can move the financial sector into a transition that facilitates systemic change towards strong sustainability.

5. Research ethical challenges

No special conflicts of interest has been identified between principal investigator, funding bodies, the institution, and/or research subjects/environments. However, if the interviewee holds an important, sensitive position (some do) this will be a matter of concern. I have recognised that conflicts of interest (i.e. personal or institutional considerations, including but not limited to financial matters) can inappropriately affect my project.

Examples of codes of conduct from professional associations that are guiding my research are the Social Research Association (2003) Ethical Guidelines, the Economic and Social Research Council (2015) Framework for Research Ethics, the ESPA Ethics Principles and Procedure, the UK Research Integrity Office’s Code of Practice for Research (2009), and the De Nasjonale



Forskningsetiske Komiteene's Forskningsetiske retningslinjer for samfunnsvitenskap, humaniora, juss og teologi (2016). Conflicts of interest must be identified, declared and addressed according to the listed codes of conducts in order to avoid that I am conducting poor research practice. I am furthermore informing my interviewees about my obligations to perform data protection accordingly. I have, and will provide them with the exact principles that I have to follow if requested.

There may be a small risk of psychological distress if the research activity touches on or enlivens conflicts within this sector and/or area of profession that the interviewees are part of. This is also valid for the potential, but small risk of physiological harm or discomfort if the research activity touches on or enlivens conflicts within this sector and/or area of profession that the interviewees are part of. This is unlikely, but this is difficult to foreseen. There may furthermore be a small risk of the research activity to touches on or enlivens conflicts or discomfort within this sector and/or area of profession that the interviewees are part of. I will do my very best to avoid this.

6. References

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