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

SMART - Sustainable Market Actors For Responsible Trade

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SMART

analyses the regulatory complexity within which European market actors operate. With a focus especially on international supply chains of products sold in Europe, the aim is to find out what prevents and what promotes a shift towards sustainable development.

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Introduction

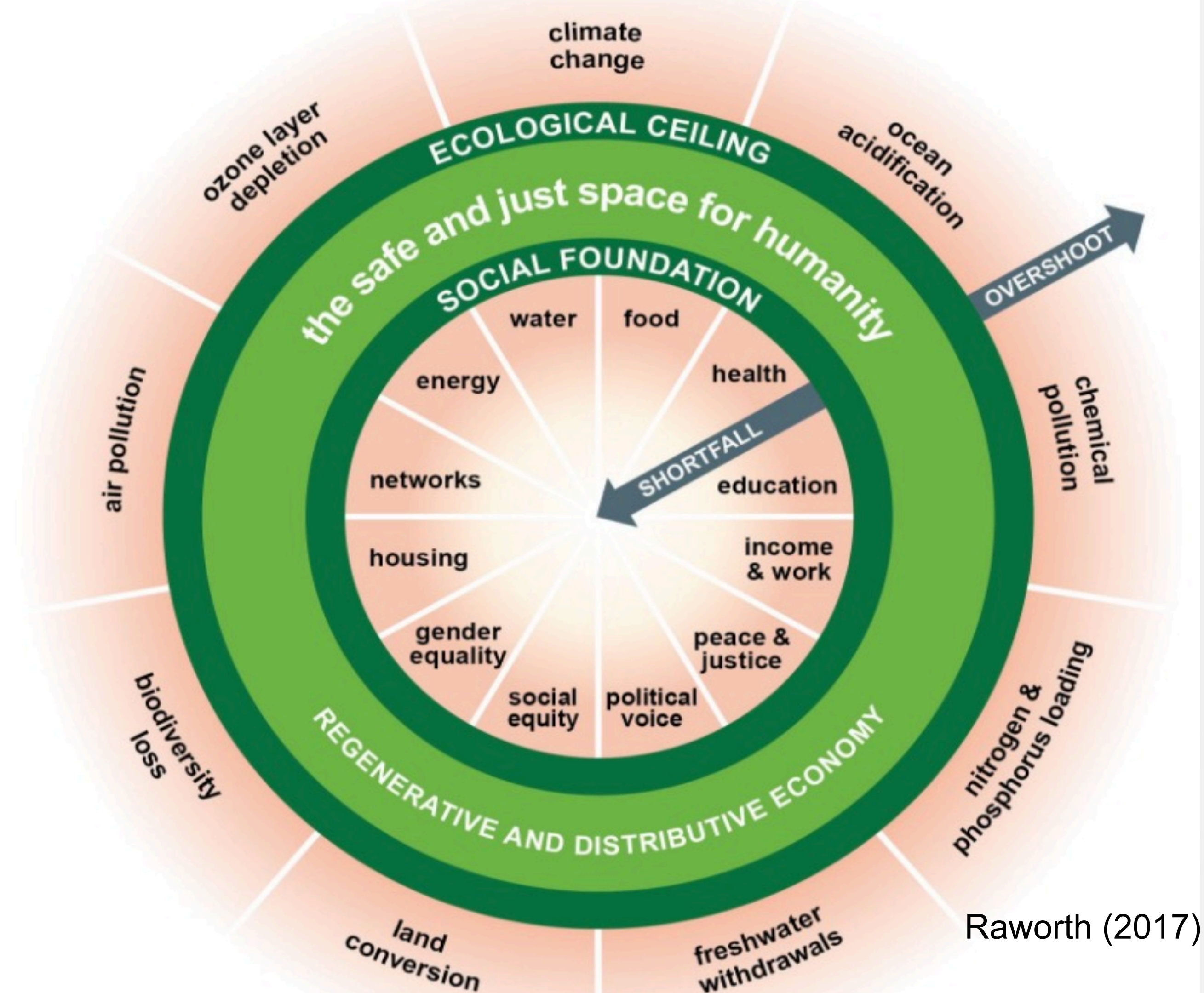
- The financial industry has embraced the idea of sustainable finance as a business opportunity.

- The sustainability concept has mainly been used to enable for ‘weak’ sustainability (e.g. Neumayer, 2003):

→ Resulted in a ‘business as usual’ agenda with a strong belief in technological solutions. (e.g. Ekins et al., 2003; Roome, 2012)

- We take use of what could be denoted as ‘strong’ sustainability:

‘[i]s more radical in orientation, constituting a new paradigm based on systems-thinking and organisational and social innovation’ (Roome, 2012, p. 624).



Raworth (2017)

Introduction

- Increased attention around sustainable finance can be studied using 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)

- 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.

Aim & Research Questions

This study investigates the emergence of the EU sustainable finance agenda as an antidote to the failures of the financial system. We 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?

We are studying actor networks, their convergence, and different interests. We unpack these phenomenon in relation to regulatory change using the following concepts:

- **’Bootleggers and Baptists’ collaboration:** Actor groups with different goals and mission can collaborate in order to achieve regulatory change (see Yandle, 1983).

- **The ‘elitist’ group of finance professionals:** the financial industry has features of a what could be called a phenomenon of ‘grand old men’ that represent age and experience, technical know-how, theoretical sophistication, ability and prestige (following Dezalay and Garth, 1995).

- **The regulatory process:** 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’ (Abbott & Snidal, 2009).

Method

We use a qualitative research methodology consisting of (a) **process tracing** and (b) **semi-structured interviews**:

We have created a database using the following materials:

- 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
- studying the activities of the umbrella organisations Eurosif, PRI and ERIN/ShareAction

The interviews were conducted with **19 informants** from international organisations, NGOs and the financial industry with knowledge of EU policy-making and sustainable finance.

Findings

Our analysis suggests that there are multiple explanations to the emergence of EU sustainable finance policies during 2008-2019:

- The financial crisis has played a significant role in creating awareness of the failures of the financial system among actors.

- Processes of financialisation of our economy have been facilitated by significant interest from the financial industry.

➢ This is not a bad thing per se, but it seems to impact how policies in the current context can deliver in terms of sustainability outcomes.

➢ This seems to have limited interest in systemic change.

Emergence of EU sustainable finance policy – *some main events*

2015

On 29 September 2015, Mr Mark Carney, former Governor of the Bank of England held his famous speech on 'Breaking the tragedy of the horizon – climate change and financial stability'.

December 2015 the FSB launched the industry-led Task Force on Climate-related Financial Disclosures (TCFD)

In September 2015, the Commission published the CMU Action Plan, which included a clear commitment of the Commission to promote and increase environmental and sustainable investments.

In October 2015 UN Environment initiative 'The Inquiry' launched the landmark report "The Financial System We Need".

2016

On 28 October 2016 the European Commission launched their decision to create a High-Level Expert Group on Sustainable Finance.

On 4 August 2016, the Chinese government hosted its first G20 summit where all heads of state agreed on the shared goal of promoting green finance.

2018

On 8 March 2018, the Action plan on sustainable finance was adopted by the Commission.

On 31 January 2018, the HLEG launched their Final report on sustainable finance.

On 24 May 2018 the Commission presented a legislative package of measures as a follow-up to its action plan on financing sustainable growth.

2019

On 18 June 2019, the TEG published a report on EU Taxonomy

Agenda and Negotiation in the EU Sustainable Finance regulatory process

- There is no doubt that the financial crisis has had a role in creating an increased interest in sustainable finance. But some say that this narrative is rather used to hide away from actual change.

- Multiple actors engaged in the EU Sustainable Finance agenda express concerns that the Action Plan furthering the process of financialisation of the economy:

→ More financial products are being created, but now they are ‘sustainable’.

→ Sustainable finance is used to fight the short–term focus/financialization process. But the result is an Action Plan that promotes financialization.

- The sustainable finance field exploded from being a ‘small club’ to a more **formalized, structured and mainstream routinized field** with multiple NGOs operating.
- We identify a coalition of NGOs that have been instrumental in driving EU sustainable finance reform **prior, during and after** the initiation of the EU Sustainable Finance Initiative.

Bootleggers and Baptists’ collaboration

- The actors have distinct interest and different expertise, but they have complemented and benefitted from each other.
- The ‘Bootleggers and Baptists’ collaboration concept describe the actor engagement for EU Sustainable Finance well → actors with different goals and mission collaborate in order to achieve regulatory change.
- Certain actors within the financial industry is especially prominent such as Aviva.

Systemic implications

- Not enough capital flow to sustainable business, neither is capital being prized the right way.

- The problems in financial markets are many:

➢ We need to fix multiple things across the whole chain, for the chain to actually work.

➢ For example: it does not matter if we force fund managers to be more transparent about how to invest sustainably if investment consultants do not even mention it.

- The sustainable finance agenda seems to be facilitate a few “quick wins” rather than systemic changes. There is no discussion on the role that the financial sector should have in society.

- There are lack of attempts to re-think how to prevent dangerous and systemic risk factors in the financial system:

One interviewee suggest that:

‘a crisis is the worst period in time to challenge the system, because you are busy putting out the flames, and by putting out the flames you’re reinforcing the system. (..) I mean, if you can’t challenge the financial sector at the worst point in the cycle, which is when they are burning and need help, when are you going to challenge them?’ (I12)

- In order to create a financial system that is robust enough to tackle a crisis, the role of banks are important.

- Focus on capital requirement and implications of shadow banking becomes crucial:

➢ Basel III and CRD IV have been implemented. But Basel did not prevent financial market volatility before the crisis?

➢ Banks are quite well regulated, but shadows are not.

- Some significant international players such as the Basel Committee and OECD needs to be included in any systemic analysis of how to create a sustainable financial system.

Finance for ‘strong’ sustainability?

- The mere focus on climate in the Action Plan – rather than multiple sustainability action points - constitute a significant contradiction to the EU’s implementation of the 2030 Agenda (and strong sustainability).

- There are potential links between how the design of the Action Plan is set up for social sustainability and whether the acknowledged lack thereof has implications for systemic risk.

→ We should further the work on how human rights fit into financial market analysis and functioning. (I11) (in line with UN Inquiry report on human rights and sustainable finance, 2016)

→ Integrate human rights factors into derivatives, analyse how do they fit into supervision and in quantitative easing. Then we can start finding connections between human rights and systemic risks.

Tentative conclusions

- The financial crisis has played a significant role in creating awareness of the failures of the financial system among a wide array of actors.

- The phenomena of sustainable finance has exploded from being a small club for finance professionals to a more **formalized, structured and mainstream routinized field**. This seems to be due to the process of financialisation.

- The strategy of the NGO coalition, and especially some of its members, has been to establish a ‘Bootleggers and Baptists’ collaboration with front-runner pension funds and asset managers:

➢ This seems to impact how policies in the current context can deliver in terms of sustainability outcomes.

➢ This seems to have limited interest in actual systemic change, and has rather facilitated slower incremental change.

- The final analysis will hopefully result in an even more concrete understanding of:

(1) how the social responsible investment fraction of the financial industry emerged into a field of interest for mainstream actors.

(2) how the identified actor configuration active in EU sustainable finance policy-making collaborate and how this have affected the regulatory process.

(3) what tension this development has created between SRI and mainstream actors and increased M&A within the field of SRI and ESG.

(4) If the actor networks and the current EU policy agenda on sustainable finance can move the financial sector into a transition that facilitates systemic change towards strong sustainability.

Thank you!

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