2019-04

SUSTAINABLE FINANCE IS THE FUTURE

How can the pace of the financial sector's shift towards greater environmental and social responsibility be quickened?

République Française
Liberté - Égalité - Fraternité
Conseil économique social et environnemental

Last October, the IPCC gave a stark reminder of just how urgent it is to redirect financial flows towards the energy transition in an effort to limit global warming to 1.5°C. Otherwise the risk is that the consequences of environmental damage inflicted by human activity will be hard to reverse. In 2013, the collapse of the Rana Plaza building in Dhaka, Bangladesh, laid bare the fact that thousands of employees for the big fashion brands were working in substandard factory conditions. At the same time, inequalities are still rife between countries at global level and are even getting worse at domestic level. One of the key factors driving such injustices is the short-termism of many financial stakeholders.

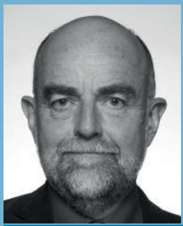
For the ESEC, these issues are closely connected: only by striving to limit inequalities will we have any hope of tackling the ecological crisis. Part of the solution to this social and environmental crisis lies particularly in quickening the pace of the financial sector's shift towards a finance model focused on building a sustainable future. French citizens have extensive savings, and it is becoming increasingly clear that they wish to see these used responsibly by the banks, insurance companies or fund managers who invest them on their behalf. Whilst the soundness of their savings still matters to them, the socially and environmentally sustainable nature of the activities they finance is a criterion by which more and more of them now set store.

Efforts are, admittedly, already moving in the right direction via approaches bearing on socially responsible investment, inclusive finance or green finance. But such activities still only make up a limited proportion of the sector's portfolio and the reality of the commitments they reflect may sometimes raise questions. The strategies they involve are not always clear-cut for the public. The quality and reliability of the tools - certifications, ratings, reports, taxonomy - deployed are still not sufficient to inspire confidence in savers and financial stakeholders. Moreover, although noticeable progress has been made in recent years in terms of green finance, recognition of the social, societal and governance issues does not seem to be nearly as advanced.

In light of the pressing social and environmental challenges facing us, it is paramount that these tools be made more reliable so that we can speed up these efforts and roll out these approaches more widely. The ESEC has endeavoured to determine which drivers can be harnessed to that end at French and European level alike.

Guillaume Duval
is a leader writer for Alternatives économiques.
At the ESEC, he is a qualified individual member of the Section for Economy and Finance and Section for the Environment.

Contact:
guillaume.duval@lecese.fr
06 81 45 76 05



Philippe Mussot
is a joint social protection group administrator and Policy Officer at the CFDT Banking & Insurance Federation.
Member of the CFDT Trade Union Group, at the ESEC he is a member of the Section for Economy and Finance and the Delegation for Long-range Planning and Evaluation of Public Policies.

Contact:
philippe.mussot@lecese.fr
01 44 43 64 07

Contact: ecofin@lecese.fr - 01 44 43 62 46

THE ESEC'S RECOMMENDATIONS

PRIORITY 1: UPDATE THE REGULATORY FRAMEWORK IN FRANCE AND EUROPE

- **Establish an environmental AND social taxonomy.** Define a classification of sustainable investments in environmental terms and begin to extend it to the social and governance aspects
- **Strengthen ESG rating.** Define European transparency requirements which will be applicable to environmental, social and governance (i.e. non-financial) rating agencies as well as the terms for certifying their rating procedures. Make ESG rating a requirement for financial sector firms
- **Establish a core set of European requirements for SRI certifications.** Define a minimum set of practices at European level with which all SRI-oriented certifications would have to comply
- **Initiate regulatory reform.** Look into updating the prudential regulations to avoid obstructing the expected contribution to the energy transition of long-term investments incorporating ESG criteria. Assess the impact of international accounting standards on the development of sustainable finance
- **Broaden and improve financial stakeholder reporting.** Implement the reporting stipulated in Article 173 of the Energy Transition for Green Growth Act (LTECV) at European level. Broaden its scope to include all financial sector stakeholders and improve its effectiveness

PRIORITY 2: STEER SAVINGS TOWARDS LONG-TERM SOCIALLY RESPONSIBLE INVESTMENTS

- **Coordinate and promote French public certifications.** Set up a national agency tasked with managing SRI public certifications, for the coordination of existing certifications; where applicable, design additional thematic certifications and promote these among the general public
- **Earmark savings more effectively.** Make ESG rating a requirement for all savings funds supported by the public authorities. Systematically give savers the option of investment vehicles with ESG ratings as of now and, in time, SRI certification. Reform the "Livret de développement durable et solidaire" (LDD) savings account to require investment in SRI certified funds of the sums deposited. Increase the remuneration rate of the newly reformed LDD relative to the Livret A savings account
- **Differentiate the tax advantages granted to savings.** Look into a system setting out a scale of tax advantages granted to household savings based on whether or not the various products are certified
- **Strengthen the leading role played by joint and public fund managers.** Invite the social partners managing the statutory schemes to draw up a plan for investing, over a five-year period, 100% of their reserve funds in SRI certified funds for all categories of assets covered by public certifications
- **Support the financing of SMEs and local projects.** Outline options for unlisted SMEs and mid caps as well as small-scale local projects to access financing through SRI certified funds. These could particularly come in the form of public support for engineering loan syndication for SMEs and local projects

PRIORITY 3: INCREASE RECOGNITION OF STAKEHOLDERS

- **Enhance the role sustainable finance stakeholders play in companies** Encourage companies to grant preference shares to SRI certified investment funds along with easier access, by lowering the requisite levels, to the submission of AGM resolutions solely on subjects with a direct bearing on the company's social and environmental business strands
- **Involve the employee representative institutions.** Urge the financial institutions to consult the CCSEs (works councils) about the ESG policy. Their opinion will then be appended to the annual reports published
- **Make the financial institutions more accountable.** Commit the sector's companies to setting up a specific committee within their Board of Directors tasked with assessing the environmental, social or governance risks. Draw up an action plan that is likely to limit their impact and submit this annually to the Board of Directors and CCSE (works council). Undertake to ensure that the variable pay of their executives is, for a proportion identified by the Board of Directors, correlated with the growing recognition of ESG criteria

You can find the whole opinion on the website www.lecese.fr