

CROWDFUNDING IN THE FUTURE OF SUSTAINABLE FINANCE

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SCOPING PAPER AND CALL FOR
EXPRESSION OF INTEREST

SUSTAINABLE FINANCE WORKING GROUP

- INSPIRING TOMORROW'S FINANCE -

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Crowdfunding In the Future Of Sustainable Finance

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Updated version 1.1 date 25 June 2021

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EXECUTIVE SUMMARY

The growing importance of reorienting investments and efforts towards a more sustainable global financial ecosystem has propelled the emergence of a number of significant initiatives. In the first place, the well-known reference framework depicted by the SDGs has incentivised companies, financial intermediaries and consumers to place greater attention towards the impact of their daily actions, while providing guidance on how to monitor and report impact.

At the European level, the Sustainable Finance action plan published in 2018 tackled the issue of redesigning how capital is allocated as to embed sustainability in the core of the current financial system. However, as EUROCCROWD and others pointed out in their responses of the plan, a number of gaps still remained, with the initiative, targeting only big capital providers on one hand, and big market players on the other. In this context, SMEs and startups, which constitute 98% of the EU economic tissue, struggle to find their place in the emerging sustainable finance landscape. The same condition remains valid for alternative finance providers such as crowdfunding platforms, who mainly provide capital to small ventures while mainly raising small amounts from large crowds of retail investors.

The most recent Strategy for Financing the Transition to a Sustainable Economy published in July 2021¹ does address some of these shortcomings, recognising the need for a more inclusive sustainable finance framework through the empowerment of retail investors, as well as the need to leverage new opportunities provided by emerging digital technologies.

To fulfil these ambitions, it is our belief that the alternative finance landscape must work together with mainstream financial actors, as well as startups, SMEs, and public authorities at the European, national and regional levels.

The purpose of this paper is thus to set the context for the establishment of the **Sustainable Finance Working Group**, and to encourage all interested stakeholders to join EUROCCROWD's effort in making sustainable finance a widespread concept in practice and ensure that the needs and resources of the alternative finance sector are taken into account in this new phase of the EU sustainable finance strategy

Interested organisations are invited to contact Francesca Passeri (francesca.passeri@eurocrowd.org) and Andrea Bogi (andrea.bogi@eurocrowd.org). The deadline to join the Sustainable Finance Working Group is fixed on October 30th, 2021.



About EURO CROWD

EUROCROWD, registered as the European Crowdfunding Network AISBL in 2013 in Belgium, is an independent, professional business network promoting adequate transparency, regulation and governance in digital finance while offering a combined voice in policy discussion and public opinion building.

We execute initiatives aimed at innovating, representing, promoting and protecting the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology, including crypto assets and distributed ledger technologies.

We aim to increase the understanding of the key roles that digital finance can play in supporting entrepreneurship of all types and its role in funding the creation and protection of jobs, the enrichment of European society, culture and economy, and the protection of our environment.

EUROCROWD maintains a dialogue with public institutions and stakeholders as well as the media at European, international and national levels.

DISCLAIMER

The information and views set out in this paper are those of the authors and do not necessarily reflect the official opinion of the European Crowdfunding Network. Neither the European Crowdfunding Network nor any person acting on the European Crowdfunding Network's behalf may be held responsible for the use which may be made of the information contained therein.

SETTING THE CONTEXT

On 11 December 2019, the European Commission adopted its Communication on a European Green Deal, which significantly increases the EU's climate action and environmental policy ambitions. In this context, the European Green Deal Investment Plan – the Sustainable Europe Investment Plan – announced on 14 January 2020 aims to mobilise public investment and help to unlock private funds through the EU budget and associated instruments, notably through the InvestEU programme. However, the financial system as a whole is not yet transitioning fast enough. Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de-carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

For all these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy².

In this perspective, the EU strategy aims at redirecting large flows of capital towards environmentally and socially sustainable activities. In order to achieve such ambitious objectives by 2030, a Green Taxonomy has been developed by a Technical Expert Group on Sustainable Finance, and a Social Taxonomy Subgroup has been announced in July 2021³.

Sustainable Finance differs from traditional finance by taking due account of environmental and social considerations as part of the investment decision. In the EU's policy context sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and considering social and governance aspects. It also encompasses transparency on risks related to factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors. Crowdfunding allows for such considerations in general, but it can further be used to specifically address particular environmental or social issues while involving relevant communities and citizens. Within the framework of the European Green Deal, sustainable finance is a key feature for the development of all seven policy areas, and crowdfunding has already proved to be an effective financing mechanism for projects that fall within those areas. With a harmonised regulatory framework for crowdfunding about to be implemented, it is time to develop the industries footprint in the European Green Deal and establish crowdfunding as a key tool in the sustainable finance mix.

BARRIERS AND BOTTLENECKS

- **The current structure of the EU Taxonomy is primarily thought of for financial products issued by institutions that move in the traditional space:** banking institutions, asset managers, investment funds, pension funds. From the crowdfunding industry's perspective, the application of criteria laid out in the EU Taxonomy regulation might become extremely relevant, as equity and lending platforms offer lenders and investors the opportunity to directly assess the investment opportunity without intermediation. The disintermediate nature of crowdfunding might facilitate the onboarding of an increased number of sustainable projects, as well as the involvement of a large number of citizen-investors.
- **The current structure of the EU taxonomy is likely to place an excessive additional administrative burden on small companies** that wish to be aligned with the EU Taxonomy, therefore discouraging them from applying such criteria. In turn, as the type of companies that raise money through crowdfunding ranges from micro to medium-sized enterprises, the current structure is also likely to discourage crowdfunding platforms from integrating such criteria in their operations.
- **The lack of financial literacy and awareness about the EU Sustainable Finance strategy among the wider public remains a challenge.** Results from previous and ongoing initiatives in the crowdfunding industry show that financial literacy increases investors' trust and their ability to assess proposed offers. It is likely that the inclusion of sustainability elements in financial education initiatives will produce the same positive results and increase the available capital for Micro and SMEs in the transition towards sustainable investments. With crowdfunding addressing many retail investors and smaller companies, enabling crowdfunding stakeholders to better interact with the EU sustainable finance strategy might prove a significant asset.

THE CONTRIBUTION OF CROWDFUNDING TO THE EC SUSTAINABLE FINANCE ACTION PLAN

A number of European crowdfunding platforms have already moved their first steps in the sustainable finance space, either by vertically focussing their operations on projects that fall within priorities listed in the EU Green Deal, or by integrating SDG criteria in the onboarding process for projects at large.

The widespread interest of the crowdfunding industry towards sustainable finance has been made evident by the organisation, in June 2020, of the 6th EUROCROWD CrowdCamp on this topic. With a community of speakers coming from not only the crowdfunding sector, but from the wider investment industry as well as from EU institutions, the three-days event highlighted the relevance and the willingness of crowdfunding market players to engage and commit to sustainability in their operations.

Such commitment has been further confirmed in July 2020, when EUROCROWD submitted a response to the European Commission's consultation on the renewed sustainable finance strategy. The document was endorsed and signed by six crowdfunding platforms operating in six different Member States.

PROPOSED ACTIVITIES

- Map/evaluate the status of the European crowdfunding market for sustainable investments, identifying main focus areas, investment volumes, key players, enabling or hindering factors at national level.
- Activate a multistakeholder working group to facilitate the exchange of existing good practices in the field of crowdfunding for sustainable initiatives.
- Collect evidence, through case studies, on current methods that different crowdfunding platforms apply to identify sustainability aspects when onboarding projects, as well as highlight them to potential investors.
- Explore possibilities for a standardised framework that participating crowdfunding platforms might adopt when evaluating sustainability of projects to be onboarded, involving SME and start-ups' associations in order to validate that identified criteria will be suitable for companies.

- Identify relevant applications of innovative technology solutions to enable sustainable citizen investments (e.g. blockchain).
- Publish results of the working group by Q2 2022 and put forward recommendations for the interaction of crowdfunding with the EU Sustainable finance strategy.

TIMELINE, OUTPUTS AND EXPECTED IMPACT

The purpose of the Working Group activities is to socialise different actors in the sustainable finance arena as to deliver practical examples of best practices and guidelines on how to monitor and report on environmental, social and governance indicators. This objective will be achieved through the publication of a series of reports. The timeline of the working group will be as following:

- 31st October 2021 – deadline for expressions of interest from interested stakeholders;
- November 2021 – Launch of the Working group activities;
- Q2 2022 – first report to be delivered (overview of existing best practices);
- Q2 2022 – CrowdCamp on sustainable finance and impact investing in Bilbao;
- Q4 2022 – second report to be delivered (standardisation of framework and blueprint for replication)
- Q2 2023 – third report to be delivered (policy recommendations and potential synergies with other funding sources and financial actors)

FOOTNOTES

¹https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en

²European Commission's consultation on the renewed sustainable finance strategy, March 2020

³https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en

⁴CROWDFUNDING AND SUSTAINABLE FINANCE, Response to the European Commission's public consultation on Sustainable Finance, Eurocrowd, 2020

OCTOBER, 2021

EUROPEAN CROWDFUNDING NETWORK

