#unitedforimpact

POSITION PAPER

Propositions of 55 impact investors from 16 EU countries

Key propositions

- Introduce a clear **definition of impact investment in SFDR**
- Leverage **EU funding** to increase private impact investments
- Complete the environmental taxonomy with a **social taxonomy**
- Create a '**mission-driven' company** status at EU level
- Address the **reporting gap** for extra-financial data between CSRD and SFDR for SMEs

Who we are

The #UnitedforImpact initiative was launched in December 2023 by 32 European impact investors, who co-signed a public op-ed to call on EU institutions to better define impact investing in SFDR. We are now 55 impact investors from 16 EU countries.
This informal initiative gathers impact investors across the entire financing spectrum. It aims to highlight the specificity and methodology of impact investing, with the ambition of massively redirecting capital towards companies that put at the heart of their business models the resolution of environmental and/or social challenges.

Why the world needs impact investment

Impact investing is an exciting and rapidly growing segment of the financial industry powered by investors who are determined to generate social and environmental impact as well as financial returns. This is taking place all over the world, and across all asset classes, and EU investors have a major role to play in this evolution. Between 2019 and 2022 globally, 330 impact investment funds were launched, and the assets under management in these funds increased from $90 billion to $371 billion. In 2022, the worldwide Private Equity market represented $255 billion, 23% of which was in Europe.

Impact investments are investments made in projects bringing a solution to major social or environmental challenges, with the intention to generate positive, measurable impact alongside a financial return. Impact investments can be made in both emerging and developed markets. It finances human and technical capital. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

The world is facing unprecedented environmental and social challenges, and entrepreneurs are key actors to innovate and develop effective solutions to tackle these challenges. As private impact investors, our mission is to support these solutions and to bring their impact at scale.

It is necessary that all companies engage in a positive trajectory on environmental, social and governance (ESG) practices, to limit their negative externalities on society and the planet. However, if we want to achieve systemic change, this is not enough. The question should no longer be "how" but "what". Capital should be massively reoriented towards companies that put the resolution of environmental and/or social challenges at the heart of their business models. Companies whose very purpose is to have a positive impact. Investors are at the forefront of the fight against climate change and for a fairer society, and private investments need to be massively reoriented to finance the twin environmental and social transitions.

[1] GIIN, Global Impact Investing Network, What is Impact Investing ?

Introduce a clear definition of impact investing in SFDR

The European Union adopted in 2018 the Sustainable Finance Disclosures Regulation (SFDR), which introduced the now famous distinction between article 6, article 8 and article 9 funds. These articles cover financial products that aim, with various ambitions, to finance more "sustainable investments".

But this regulatory framework lacks clarity. Today, institutional investors do not know if they invest in impact positive assets when choosing article 8 or article 9 funds as part of their portfolios. Article 8 and 9 funds can cover very different financial products, even if they all allegedly have a sustainability focus. These articles are used as labels by the markets, and their vagueness tend to accentuate risks of greenwashing and impact-washing.

Especially, **article 9 products are often mistaken for impact funds.** The definition of article 9 funds, which have "sustainable investment as their objective", is too broad and can cover sustainability claims going well beyond measurable and impactful solutions and innovations.[2] We believe that a difference should be made among article 9 funds between solutions and transition, while equivalent of article 8 (ESG +) and article 6 (exclusions) funds remains.

In September 2023, the European Commission via the voice of Commissioner Mairead McGuinness launched a wide consultation on the assessment of SFDR. In this consultation, the Commission plans to develop a more precise product categorisation system at EU level either by developing the distinction between article 8 and article 9, or by creating a 4-category system. In this latter option, the first category would target "products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet".

This new category entails key parts of the impact investment definition. This is why, as impact investors, **we strongly support the proposition of the European Commission to create a new category in SFDR defining and dedicated to impact investments.** This category would allow to differentiate between solutions to environmental and social challenges and sustainability best practices.

We also support the European Commission's proposition to set out clear minimum criteria to avoid potential impact washing claims. Alternatively, if SFDR is not the right vehicle, the EU could consider the creation of a European label mechanism for private equity and venture capital impact investment funds.

Either way, a distinction could be made in SFDR between public and private equity products, the former being investments in financial products, typified by secondary purchases of shares in stock markets, and the latter, in which capital managed for alternative assets is actually invested into real assets (human and physical), thereby directly effecting change.

Leverage EU funding to increase private investments

Public EU funding can have a strong leverage effect in order to mobilise further private capital towards impact investments. Until now, the European Investment Fund (EIF) has been the cornerstone investor of a vast number of impact investments funds all across the EU, their funding enabling significant funding from

[2] France Invest, *March 2023*, Fonds à impact et réglementation, un état des lieux pour comprendre les enjeux

private institutional investors to be triggered subsequently. This leverage effect on other private investments is critical for impact investment funds.

The EIF intervention is however dependent on the total amount of guarantee allocated to social and environmental projects under InvestEU in the Multiannual Financial Framework (MFF). In order to bring impact at scale, and leverage as many private investments as possible, therefore call on the next EU Parliament and Commission to reinforce the EIF mandates, especially under InvestEU.

The European impact investing market is still growing, and needs to be supported in its entirety without being over segmented. In this regard, existing and future mandates should allow the EIF to finance impact generalist strategies supporting the fair transition both in its environmental and social components.

Generalist mandates under InvestEU should be increased, and reallocation from sectorial mandates - or even from other implementing partners - should be allowed to prevent the risk of under-allocation. The “Innovation” window could be directed towards projects bringing solutions to the environmental and social transitions - as it is today mainly the case under the “Social investments and skills” window.[3]

Other forms of EU funding can be useful to support the deployment of impact investment funds, and we call for a diverse approach to effectively tackle the investment gap for impact assets, especially in Central and Eastern European countries. Investment actors backed by EU funding can however experience limitations and an important regulatory burden, especially with regard to state aid rules.

As it was the case for InvestEU and other financial instruments, we therefore call EU institutions to diminish the regulatory constraints and burden for investment vehicles targeting sustainable solutions and backed by EU funding.

Complete the environmental taxonomy with a social taxonomy

The existing legislative framework, with instruments such as EU Taxonomy for sustainable activities, tends to prioritize environmental sustainability. However, achieving a just transition will require addressing both environmental and social challenges. **It is therefore necessary to develop the social counterpart to the environmental taxonomy**.

The last report on a Social Taxonomy from the European Commission's Platform on Sustainable Finance laid down key principles for a social taxonomy, encompassing sector-specific verticals and cross-cutting criteria on affordability, accessibility, acceptability, and quality. This approach is aligned with impact funds’ methodologies, but a key input is lacking on the concept of **substantial contribution**.

A new social taxonomy needs to be pragmatic in its approach. Its objective should not be to be exhaustive or to standardize measurement approaches. It is essential to avoid reporting the same shortfalls as the environmental EU Taxonomy. The standardization of positive impacts measurement has been identified as a key barrier to the development of impact investing for many years.

[3] Impact Europe, *April 2024*, The Investing for Impact Manifesto

As impact funds, we believe that the market is ready for the establishment of formal guidance by the European Commission (level 4) on positive impact indicators (both social and environmental) that could identify good practices and foster their adoption by the market, without infringing upon market innovation that is still necessary to improve impact measurement and management.

Create a 'mission-driven company' status at EU level

We support the proposal put forward by the Business for a Better Tomorrow coalition to **create a "mission-driven" (or "purpose-driven") company status at EU level**. While several Member States have already created legal statutes ('*Société à mission*' in France, '*Società Benefit*' in Italy, '*Sociedad de Beneficio de Interés Común*' in Spain) and others are considering to do so (Belgium, Sweden), no EU framework has yet emerged.

This status refers to commercial companies that have one or more social or environmental objectives. The purpose of the "mission-driven company" is to reconcile the common interest of the shareholders with the achievement of a broader objective of general interest, rather than limiting it solely to profit-sharing or economic achievement. The main benefit is to make this quality enforceable for everyone, partners, clients, institutions, etc.

The transition from a traditional company to a mission-driven company would require the implementation of internal tools to pursue a mission of general interest, among which : the creation of a dedicated governance body, the enshrinement of a social or environmental purpose in legal documentation, and a transparency obligation.

Address the reporting data gap between CSRD and SFDR for small companies

EU institutions should explicitly address the existing gap for **small companies that do not fall under the obligations of CSRD, but need to report to their investors** on their ESG data due to obligations flowing from article 8 and article 9 disclosures **under SFDR**. Disclosures for SMEs should be harmonised and target ESG data that are actually material for their sizes. In this regard, we will follow the ongoing work on the establishment of a European single access point for financial and non-financial disclosures.

If a separate category was to be created in SFDR for impact investments (*Proposition 1*), related disclosures should target data related to measured impact creation rather than non-material ESG data.