Call for feedback on the Platform on Sustainable Finance’s draft report on social taxonomy

Fields marked with * are mandatory.

Introduction

Disclaimer:

This call for feedback is part of ongoing work by the Platform on Sustainable Finance, which was set up by the Commission to provide advice on the further development of the EU taxonomy framework.

This feedback process is not an official Commission consultation. The draft report produced by the Platform is not an official Commission document. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

In March 2018 the Commission published its action plan: financing sustainable growth, based on the advice of the High Level Expert Group (HLEG). Action 1 of the Commission’s action plan calls for the establishment of an EU classification system for sustainable activities, or taxonomy. The Commission followed through on this action by proposing a regulation for such a taxonomy. The Taxonomy Regulation was adopted by the co-legislators in June 2020. It establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity has to meet in order to qualify as making a substantial contribution to environmental objectives.

Development of the EU taxonomy relies on extensive input from experts from across the economy and civil society. The Platform on Sustainable Finance plays a key role in enabling such cooperation by bringing together the best expertise on sustainability from the corporate and public sector, from industry as well as academia, civil society and the financial industry join forces.

While the work started with classifying environmentally sustainable activities, the need to better understand socially sustainable investments was acknowledged from the onset, and featured among the recommendations of the HLEG in 2018.

In October 2020, the Commission established the Platform for Sustainable Finance, and created with five working groups, including the Subgroup on social taxonomy, which was tasked to:
1. explore the extension of the taxonomy regulation to social topics
2. elaborate potential objectives of a social taxonomy
3. work out a structure of a social taxonomy
4. identify approaches to substantial contribution and ‘do no significant harm’ in the field of ‘social’
5. reflect on governance, business ethics, anti-bribery and tax compliance
6. consider potentially harmful activities
7. suggest a relationship between a green and a social taxonomy

On 12 July 2021, the Platform published its first draft report on a proposal for a social taxonomy.

The report assesses the merits of a social taxonomy in addition to the environmental taxonomy, and explores possible avenues to complement the existing taxonomy. The report also proposes various objectives and sub-objectives for a social taxonomy, as well as possible approaches for defining “substantial contribution” and “do no significant harm” criteria. Finally, it develops two alternative models for articulating the social taxonomy with the environmental taxonomy.

Call for feedback

The Platform is inviting stakeholders to provide feedback on the draft report through this online questionnaire.

The deadline for providing feedback has been extended to Monday 6 September 2021 at 12:00 CEST (midday).

In the online questionnaire, you will be asked to comment on certain aspects of the report and make suggestions.

Next steps

The Platform is still working on some important aspects of these questions and will proceed to develop its final report and final recommendations after considering the stakeholder input collected through this call for feedback.

The Platform will submit the final report with their advice to the Commission in autumn 2021. The Commission will analyse and consider the report in view of the continuous developing of the EU taxonomy, as anticipated in the new sustainable finance strategy.

By the end of 2021, the Commission will publish a report on the provisions required for a social taxonomy, as required by the Taxonomy Regulation.

Please note: In order to ensure a fair and transparent consultation process only responses received through our online questionnaire will be taken into account and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-platform-sf@ec.europa.eu.

More information on

- the call for feedback document
- the draft report on a social taxonomy
• the publication of the 2 draft reports
• the Platform on Sustainable Finance
• sustainable finance
• the protection of personal data regime for this call for feedback

About you

• I am giving my contribution as
  ○ Academic/research institution
  ○ Business association
  ○ Company/business organisation
  ○ Consumer organisation
  ○ EU citizen
  ○ Environmental organisation
  ○ Non-EU citizen
  ○ Non-governmental organisation (NGO)
  ○ Public authority
  ○ Trade union
  ○ Other

• First name
  Adriana

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  Kocornik-Mina

• Email (this won't be published)
  adriana.kocornik@gabv.org

• Organisation name
  Global Alliance for Banking on Values
Transparency register number

255 character(s) maximum
Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

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* Organisation size
  - Micro (1 to 9 employees)
  - Small (10 to 49 employees)
  - Medium (50 to 249 employees)
  - Large (250 or more)

* Where are you based and/or where do you carry out your activity?
  - Austria
  - Belgium
  - Bulgaria
  - Croatia
  - Cyprus
  - Czech Republic
  - Denmark
  - Estonia
  - Finland
  - France
  - Germany
  - Greece
  - Hungary
  - Iceland
  - Ireland
  - Italy
  - Latvia
  - Liechtenstein
  - Lithuania
  - Luxembourg
  - Malta
  - Netherlands
  - Norway
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom
- Other country

Field of activity

- Financial activity
  Please select as many answers as you like
  - Accounting
  - Auditing
  - Banking
  - Credit rating agencies
  - Insurance
  - Pension provision
  - Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
  - Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
  - Social entrepreneurship
  - Other
  - Not applicable

- Non-financial activity (NACE)
  Please select as many answers as you like
  - Agriculture, forestry and fishing
  - Mining and quarrying
  - Manufacturing
  - Electricity, gas, steam and air conditioning supply
  - Water supply; sewerage, waste management and remediation activities
  - Construction
Transportation and storage
Accommodation and food service activities
Information and communication
Real estate activities
Professional, scientific and technical activities
Administrative and support service activities
Public administration and defence; compulsory social security
Education
Human health and social work activities
Other
Not applicable

*Contributions received are intended for publication on the Commission’s website. Do you agree to your contribution being published?*

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- **Yes, I agree to my responses being published under the name I indicate** (name of your organisation/company/public authority or your name if your reply as an individual – your email address will never be published)
- **No, I do not want my response to be published**

- I agree with the [personal data protection provisions](#)

**Your opinion**

**Merits and concerns**

The draft report describes the merits of a social taxonomy and potential concerns.

**Question 1.1 Which in your view are the main merits of a social taxonomy?**

Please select as many answers as you like

- [x] supporting investment in social sustainability and a just transition
- [ ] responding to investors’ demand for socially orientated investments
- [x] addressing social and human rights risks and opportunities for investors
- [x] strengthening the definition and measurement of social investment
- [ ] other
Question 1.2 Which in your view are the main concerns about a social taxonomy?

Please select as many answers as you like

- [ ] interference with national regulations and social partners’ autonomy
- [x] increasing administrative burden for companies
- [x] other
- [ ] none

Please specify to what other concern(s) you refer in your answer to question 1.2:

1000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Ignorance of unsustainable social or environmental practices by the investee, or the community that the investee is part of, if additional benefit is narrowly defined as producing or offering more of one specific need, product or service, without requiring the investee or their community to refrain from unsustainable social or environmental behaviour at all times.

Structure of the social taxonomy

The draft report suggests a structure for a social taxonomy distinguishing between a vertical and a horizontal dimension. The vertical dimension would focus on directing investments to activities that make products and services for basic human needs and for basic economic infrastructure more accessible, while the horizontal dimension would focus on human rights processes.

The objective linked to the vertical dimension of the social taxonomy would be to promote adequate living standards. This includes improving the accessibility of products and services for basic human needs such as water, food, housing, healthcare, education (including vocational training) as well as basic economic infrastructure including transport, Internet, clean electricity, financial inclusion.

The objective linked to the horizontal dimension would be to promote positive impacts and avoid and address negative impacts on affected stakeholder groups, namely by ensuring decent work, promoting consumer interests and enabling the creation of inclusive and sustainable communities.

Question 2. In your view, are there other objectives that should be considered in vertical or horizontal dimension?

- [ ] Yes
- [ ] No
- [ ] Don’t know / no opinion / not applicable

Please explain your answer to question 2:
The report’s logic follows Kate Raworth’s doughnut: the horizontal criteria reflect the inner circle of social minimum safeguards and the outer circle of planetary boundaries, to be applied by companies in their processes and governance. Breaching these criteria implies harm to people and planet. Enriching them implies inherent social benefits that may be expected of any responsible corporate. The vertical criteria reflect the specific economic activities that respect people and planet and add value with services and products. Activities within the doughnut-space provide positive impact. But limiting social impact outcomes to the availability of products and services from a set of economic activities ignores new ways of advancing social benefits that may fall outside the scope of traditional pillars of economic activity, regardless AAAQ of products and services. Addressing the drivers of persistent exclusion requires close investor-client relations fundamental in clients’ empowerment.

Question 3. Which of the following activities should in your view be covered in the vertical dimension (social products and services)?

Please select as many answers as you like

- ✔ A1 - Crop and animal production,
- ✔ A1.1 - Growing of non-perennial crops
- ✔ A1.2 - Growing of perennial crops
- □ A1.4 - Animal production
- ✔ A3 - Fishing and aquaculture
- □ C10 - Manufacture of food products
- □ C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery
- □ C10.8.3 - Processing of tea and coffee
- □ C10.8.6 - Manufacture of homogenised food preparations and dietetic food
- □ C13 - Manufacture of textiles
- □ C20.1.5 - Manufacture of fertilisers and nitrogen compounds
- □ C20.2 - Manufacture of pesticides and other agrochemical products
- □ C21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations
- □ C23.3 - Manufacture of clay building materials
- □ C23.5 - Manufacture of cement, lime and plaster
- □ C25.2.1 - Manufacture of central heating radiators and boilers
- □ C30.1 - Building of ships and boats
- □ C30.2 - Manufacture of railway locomotives and rolling stock
- □ C30.3 - Manufacture of air and spacecraft and related machinery
- ✔ C30.9.2 - Manufacture of bicycles and invalid carriages
- □ C31 - Manufacture of furniture
C32.2 - Manufacture of musical instruments
C32.3 - Manufacture of sports goods
C32.5 - Manufacture of medical and dental instruments and supplies
D35.1 - Electric power generation, transmission and distribution
D35.3 - Steam and air conditioning supply
E - Water supply; sewerage; waste management and remediation activities
E36 - Water collection, treatment and supply
E37 - Sewerage
E38 - Waste collection, treatment and disposal activities; materials recovery
E38.3 - Materials recovery
E39 - Remediation activities and other waste management services
F41 - Construction of buildings
F42.1 - Construction of roads and railways
F42.1.2 - Construction of railways and underground railways
F42.2.2 - Construction of utility projects for electricity and telecommunications
F43.3 - Building completion and finishing
G45.2 - Maintenance and repair of motor vehicles
G46.1.6 - Agents involved in the sale of textiles, clothing, fur, footwear and leather goods
G46.1.7 - Agents involved in the sale of food, beverages
G47.5.1 - Retail sale of textiles in specialised stores
H49.1 - Passenger rail transport, interurban
H49.2 - Freight rail transport
H49.3 - Other passenger land transport
H49.3.1 - Urban and suburban passenger land transport
H50.1 - Sea and coastal passenger water transport
H50.3 - Inland passenger water transport
H51.1 - Passenger air transport
J58.1 - Publishing of books, periodicals and other publishing activities
J59.1 - Motion picture, video and television programme activities
J60 - Programming and broadcasting activities
K - Financial and insurance activities
L68.2 - Renting and operating of own or leased real estate
M71 - Architectural and engineering activities; technical testing and analysis
M72.1.1 - Research and experimental development on biotechnology
Question 4. Do you agree with the approach that the objectives in the horizontal dimension, which focusses on processes in companies such as the due diligence process for respecting human rights, would likely necessitate inclusion of criteria targeting economic entities in addition to criteria targeting economic activities?
Please explain your answer to question 4:

1000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The horizontal criteria regard respect for planetary boundaries and absolute social minima as defined by OECD and UN. Ensuring respect of both environmental ceiling and social floor can never be achieved if the criteria are confined to only one (financed) activity. Positive impact can be achieved only without harm. The horizontal criteria ensure that the company does no harm to people and planet and suggest the possibility to achieve a higher level than the basic social level for communities as defined by OECD and UN. Moreover, the experience of values-based banks suggests that the delivery of impact can be sustained when processes and operations are designed with these impact objectives in mind and not when impact is treated as an add-on.

Harmful activities

The report envisages harmful activities as those which are fundamentally and under all circumstances opposed to the objectives suggested in this proposal for a social taxonomy. There would be two sources on which this rationale can be build: internationally agreed conventions, e.g. on certain kinds of weapons & detrimental effects of certain activities, for example on health.

Question 5. Based on these assumptions, would you consider certain of the following activities as ‘socially harmful’?

Please select as many answers as you like

- [x] A1.1.5 - Growing of tobacco
- [x] B5 - Mining of coal and lignite
- [x] B7 - Mining of metal or iron ores
- [x] B9 - Mining support service activities
- [x] B9.1 - Support activities for petroleum and natural gas extraction
- [ ] C10.8.1 - Manufacture of sugar
- [ ] C10.8.2 - Manufacture of cocoa, chocolate and sugar confectionery
- [ ] C10.8.3 - Processing of tea and coffee
- [ ] C11.0.1 - Distilling, rectifying and blending of spirits
- [ ] C11.0.2 - Manufacture of wine from grape
- [ ] C11.0.5 - Manufacture of beer
- [ ] C11.0.7 - Manufacture of soft drinks;
- [x] C12 - Manufacture of tobacco products
Governance objectives

Question 6. Sustainability linked remuneration is already widely applied in sustainable investment. In your view, would executive remuneration linked to environmental and social factors in line with companies' own targets, therefore also be a suitable criterion in a social classification tool such as the social taxonomy?

- Yes
- No
- Don't know / no opinion / not applicable

Please explain your answer to question 6:

1000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

No, requiring executives' remuneration policies to be linked to social impact criteria is a contradiction in terminus. If executives are only willing to add value if they are financially rewarded for it, the respect for people and planet comes after interest in their own income. Executives will be most credible and successful in achieving social and environmental impact when they are intrinsically motivated, and not because of financial incentives. Fair remuneration of a company’s staff, including the executives, should be part of a comprehensive and coherent HR policy framework leading to more positive outcomes (involving gender balance, fair wages, diversity, collective bargaining, etc.).
Question 7. The report envisages governance objectives and analyses a certain number of governance topics. Please select the governance topics which in your view should be covered:

Please select as many answers as you like

- [ ] Sustainability competencies in the highest governance body
- [ ] Diversity of the highest governance body (gender, skillset, experience, background), including employee participation.
- [ ] Transparent and non-aggressive tax planning
- [ ] Diversity in senior management (gender, skillset, experience, background)
- [ ] Executive remuneration linked to environmental and social factors in line with companies’ own targets
- [ ] Anti-bribery and anti-corruption
- [ ] Responsible auditing
- [ ] Responsible lobbying and political engagement
- [ ] Other

Please specify to what other governance topic(s) you refer in your answer to question 7:

1000 character(s) maximum including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Board reviews progress in the organisation’s social and environmental impact and sustainability objectives.

Models for linking an environmental and a social taxonomy

The report suggests two models for linking an environmental and a social taxonomy

- **Model 1**: The social and an environmental taxonomy would only be related through social and environmental minimum safeguards with governance safeguards being valid for both. The UN guiding principles would serve as minimum safeguards for the environmental part, while the environmental part of the OECD guidelines would serve as environmental minimum safeguards for the social part. The downside would be thin social and environmental criteria in the respective other part of the taxonomy

- **Model 2**: There would be one taxonomy with a list of social and environmental objectives and DNSH criteria. It would essentially be one system with the same detailed ‘do no significant harm’ criteria for the social and environmental objectives. The downside would be that there would be fewer activities that would meet both social and environmental ‘do no significant harm’ criteria
Question 8. Which model for extending the taxonomy to social objectives do you prefer?

- Model 1
- Model 2
- Don’t know / no opinion / not applicable

Please explain your answer to question 8:

1000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Using Kate Raworth’s doughnut as the reference point, all sustainable economic activity is inside the doughnut. All activities respect both the minimum social criteria as defined by UN and OECD, and the planetary boundaries, as now being defined by the EU. It is impossible to be sustainable, or preferably add value, if either limit is breached. This is why model 2 is the only logical option. This indeed implies that many activities today will appear to be breaching the criteria of minimum human safeguards and the planetary boundaries, but this is exactly why the EU started the Sustainable Finance agenda, and guidance is welcomed by all economic actors as to which limits they have to respect. This report is a good start for defining those limits and the inherent set of criteria, while careful attention should be paid to the clear and transparent alignment of limits with both the governance structure and the social and environmental objectives of investees.

General expectation from the social taxonomy

Question 9. What do you expect from a social taxonomy?

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The values-based banks gathered in the GABV support the European Commission’s ambitions to integrate social sustainability and impact, as expressed through e.g., the European Pillar of Social Rights, in finance decisions. The GABV’s experience reveals both the added value of doing so and the longer-term viability of banks’ business models if they do so. The GABV appreciates the Platform's advice to start this integration with the description of horizontal and vertical criteria but recommends embedding the social impact themes in a broader real economy focused approach to finance for the whole financial institution, and so ensure added value in the real economy.

We have demonstrated through our focus on the real economy, our strong capital positions, and our steady financial returns that the values-based banking model provides a viable and needed alternative, adding strength to a diverse financial ecosystem.

The EU Taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a just, low-carbon, resilient and resource-efficient economy. The GABV banks apply tried and tested solutions to social and environmental sustainability that are ambitious yet practical and realistic, and therefore can be implemented by any regulated bank. Like the Platform shows in this report, they find that sustainability is not an absolute concept, but rather a relative one. This is particularly true in finance since banks are engaged in every type of sector and economic activity, working in very different social, environmental and economic contexts. The concept of sustainability is not always straightforward, and there can be trade-offs and conflicts. Science can provide data and information, but different solutions and options have to be weighed against each other. One could be setting a target while missing the point. This is why
GABV emphasizes the importance of guiding values that offer orientation in everyday business decisions:

1. All finance has an impact. The focus of finance should be on the real economy since this is one of the strongest contributing factors to the prosperity, sustainability and social well-being of communities. The IMF confirmed that relatively higher lending to the real economy, especially to SMEs, is correlated with higher prosperity and stability of their member countries. An auditable criterion for financial institutions’ social impact is thus simply the ratio of real economy finance over total assets.

2. The minimum norms relating to human rights and labour standards translate into basic exclusion criteria (e.g., gambling, tobacco, conflict minerals, pornography, forced labour) and build a minimum floor to be respected by all players in the market. However, we confirm the Platform’s assessment that these do not yet constitute what can be considered as socially sustainable or impactful; respecting this bare minimum is an inherent social requirement that should be expected from any economic actor and not a social achievement.

3. Transparency at a level that allows depositors and investors to understand what is happening with their money enables these stakeholders to choose where their money goes.

With the GABV Sustainable Banking Scorecard banks classify which projects and investments add a specific social or environmental value beyond what is standard practice in the respective market and do no harm. The framework is aligned to the UN Sustainable Development Goals (SDGs). This finance practice has delivered positive social impact for decades and as such contributes to the EU’s sustainable finance ambitions. It is, however, always a relative concept, depending on the context and change over time. As is clearly explained in the report, the criteria should not be translated into enforceable criteria, but rather into a guidance document that can serve as a reference for financial institutions and investors to assess social impact.

As the collection of best practices of values-based banks to social impact examined in the paper “Social Impact of Value-Based Banking: Best Practises and a Continuity Framework” (https://www.mdpi.com/2071-1050/13/14/7681/htm) illustrates, a clear and ambitious set of social objectives are but proof points of progress towards achieving the envisioned future of communities driven by values of inclusion and empowerment, wellbeing and sustainability, human dignity and freedom.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed
Useful links


More on the publication of the 2 draft reports (https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en)


Contact

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