



Position Paper on the Platform for Sustainable Finance's Social Taxonomy

25th August 2021

1.0: About Euclid Network

[Euclid Network](#) (EN) was founded in 2007 and is the European network for social enterprises and social enterprise support organisations. EN's members are based in 22 countries and represent a myriad of stakeholders in the European social enterprise ecosystem. The membership includes national social enterprise and civil society networks, incubators, universities, knowledge centres, social investors and local governments. EN empowers positive change by connecting, enhancing and celebrating social enterprises and their support organisations. EN works together with members, drawing from their unique experiences and pioneering insights to inform our understanding of the European social enterprise ecosystem and the realities faced by these different groups of stakeholders in their pursuit of more social business practices. Their insights iteratively feed into EN's work and support the representation of the interests of social enterprise at the European level. Working with members, EN is committed to making the green and digital transition a just transition which puts people and the planet at its centre, driving positive change today for a more social Europe of tomorrow.

In 2018 EN and the European Commission entered into a four-year Partnership Agreement, recognising EN as a key sectoral representative at European level. The European Commission Partnership was awarded under the Programme for Employment and Social Innovation (EaSI). EN is also a member of the European Expert Group on Social Enterprise and Social Economy, observer to the UN Taskforce on Social and Solidarity Economy and a member of the COVID Response Alliance for Social Entrepreneurs of the World Economic Forum¹

Social enterprises are by their nature businesses that put social and environmental considerations at the heart of their operations. This makes the development of a 'Social Taxonomy' highly relevant to their work as it acknowledges both the importance of socially sustainable business practices and has the potential to address the financing issues that many social enterprises face. Hence, a Social Taxonomy is doubly important to the European social enterprise ecosystem and offers the opportunity to cultivate a financial and investment environment that both supports 'classic' social enterprises to start-up and scale up but also has the potential to instigate a framework that encourages more mainstream enterprises to engage in ever more 'social' business practices.

¹www.euclidnetwork.eu

2.0: Euclid Network's Response to the Consultation

In the following subsections, the key considerations of how social enterprises stand to contribute to and benefit from the development of a Social Taxonomy are outlined. These points relate to:

- 1. the importance of appreciating the differences across Europe between different welfare settlements and social contracts, with the role of social enterprise and social investment always viewed as complementing rather than usurping the role of the state;*
- 2. the development of common European understandings of key terms;*
- 3. the centrality of transparency and impact measurement to determine social impact;*
- 4. the need to recognise the wide variety of stakeholders involved in social investment;*
- 5. the kinds of investment and financial products;*
- 6. the required levels of financial literacy that are essential if more social investments, businesses and communities are to be fostered.*

2.1: 27 National Policy Frameworks - including, uniting and adding to these approaches

One of the great prides of the EU is its unity in diversity. Although united, each Member State has its own social contract with its national citizens. The relationship between the state and the private sector in each locale is also unique. These individual environments - which can also vary at the regional level - greatly impact on the context in which social enterprises and investors - amongst other actors - operate. Therefore, a Social Taxonomy must take into account these differing contexts with their associated social contracts and where certain policies may already exist which aim to promote 'social' practices. Above all else, the social dimension to decision making and investment which a Social Taxonomy strives to promote cannot be thought of as a replacement for traditional ways of financing social welfare such as government spending. Hence, this social investment and the activities of social enterprises must always be viewed in parallel to existing government action which is essential for fostering a socially inclusive and sustainable European community.

2.2: Need to develop a common language around what is meant by 'social' at the EU level

The above note on the diversity of EU Member States and the complexities of existing legislative and policy frameworks highlights a key issue: what does 'social' really mean and how can different understandings of 'social' be united at the European level. Undoubtedly it is important that actions are rooted in their local contexts and based in local realities - this is embodied through the EU's commitment to subsidiarity. Hence a Social Taxonomy provides the opportunity to set a common understanding of 'social' at the European level whilst promoting local implementation of the norms and standards it sets in all manner of financial, investment and policy decisions. To understand how the idea of 'social' can be brought into mainstream financial decision making and design of financial products, learning from the good practices of social investors and impact investors is suggested as a ripe knowledge base. This provides the opportunity to learn from their different financial models and due diligence processes.

As a minimum, a Social Taxonomy should align with existing European agreements such as the European Pillar of Social Rights and the associated action plan, the European Social Charter, the EU Charter on Fundamental Rights and the European Convention on Human Rights, as well as with international agreements on the Sustainable Development Goals and international norms on responsible business conduct as detailed by the OECD².

2.3: Impact measurement and transparency

To understand whether an enterprise is acting socially or is indeed socially sustainable, transparency over their activities and measurement of their impacts is necessary. Without transparency, a full assessment of the enterprise's impact is impossible nor is it possible to establish their commitment to the horizontal and vertical elements currently set out in a Social Taxonomy³. Transparency is envisaged to include enterprises publishing details over their environmental impact, pay differentials, procurement policies, gender pay gap and so forth - many of which are currently included under the Non-financial Reporting Directive⁴. Without transparency over the activities of businesses, it will be de facto impossible to evaluate whether they and their company processes meet the standards and benchmarks denoting social sustainability set out in a Social Taxonomy.

Non-financial reporting is an area where an EU Directive already exists⁵ and can illuminate methods and areas which should be included as important when further developing a Social Taxonomy. Issue areas such as gender balance and ethnic diversity are already included as topics which certain companies must report on. There is also discussion about extending these reporting requirements to more businesses. However, this Directive⁶ regards reporting on decisions by businesses rather than considerations in decision making by businesses, investors and financial institutions. These are areas that a Social Taxonomy seeks to include. There is therefore a need to optimise synergies between a Social Taxonomy and the Non-financial Reporting Directive⁷ whilst understanding the different areas and actors that these frameworks interact with. Together these frameworks have the potential to include more social considerations in decision making and an evaluation of the impact of these decisions through reporting.

² <https://www.oecd.org/investment/toolkit/policyareas/responsiblebusinessconduct/>

³ https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

⁴ "Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups". OJ L 330, 15.11.2014, p. 1–9.

⁵ Ibid.

⁶ "Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups". OJ L 330, 15.11.2014, p. 1–9.

⁷ Ibid.

2.4: Wide variety of stakeholders involved in social investment

Financial markets and institutions are highly influential actors that have the potential to drive the future of investing in a direction that includes more social considerations. A social taxonomy would create a common language for the financial markets about what these social considerations are. It is important to take a broad perspective on the stakeholders involved. Alternative finance providers such as impact investors, foundations, microfinance and crowdfunding platforms are playing a crucial role in making social investments. Understanding that 'social' often has very local implications, these intermediaries are well placed to assess the social investment needs and opportunities.

With Social Taxonomy and the actions European institutions take to not just develop a 'social' consideration to finance and investment but to actually implement a Social Taxonomy in collaboration with intermediaries already operating in the space of social investment, there is the opportunity to illustrate internationally how such considerations can be translated from principles to policy.

2.5: Kinds of investment and financial products

It is important to note that creating a common language around social considerations is not enough to foster more social investment. Learning from the experiences in the social enterprise space, it is needed to look at different types of financial products. One such financial product identified was social bonds which are of direct benefit to social enterprises⁸. Promoting and supporting practices such as small ticket sizes, financing consortia, loan guarantee schemes and hybrid financing options (joint grant-investment) are also suggested as financial products that would support social enterprises and allow them to access more and different financial options which would normally be closed to them.

It is also important to note, as implied also above, that existing financial products such as loans could be beneficial to social enterprises if only they were able to access them. Due to the fact that many social enterprises are small or micro enterprises in their start-up or early development phases, they are considered too risky to lend to. Hence, they often cannot find investment or access loans. Allowing the risk from loans to be shared through credible schemes would increase the access of social enterprises to debt financing options such as loans. The current system is therefore understood to be set up in a way which is inhospitable to social enterprises and where the social and environmental benefits that social enterprises bring are not included in decisions around investment and in cost-benefit analyses. A greater provision of loans for start-up and early stage social enterprises that can demonstrate the social benefits they bring would therefore be beneficial.

Beyond providing loans and financial products to social enterprises, providing new, innovative hybrid finance options would also allow businesses who are not social enterprises to access funds that would otherwise be closed to them in order for them to reform their business practices to become more socially sustainable. Within the current financial system, the understanding of the benefit of such a transformative direction of a company's policies and practices is not understood and hence may lead to the company being denied financial support

⁸ Ref Astrid Brabant Outcomes Fund (website in Dutch) <https://www.brabant.nl/subsites/brabant-outcomes-fund/bof-ronde-1>)

or a loan for its transformation. The new kinds of support made available to social enterprises could therefore benefit these transformation-minded businesses.

While considerations and discussions around 'investment' may centre around financial markets⁹, it is important to consider alternative forms of investment such as that expressed through day-to-day spending on procurement by companies and governments¹⁰. This links closely to campaigns around 'Buy Social'¹¹ which seek to include social clauses and more social considerations in procurement policies. Spending on public procurement in the EU accounts for approximately 14% of spending¹². This does not even include corporate procurement spending. Procurement can be understood as a form of investment and is covered in Public Procurement Guidance to Practitioners issued by the European Structural and Investment Fund of the European Commission¹³. Given the size and value of this spending, the potential for including procurement as an area covered by a Social Taxonomy could have a significant impact on driving more social investment and contribute greatly to ongoing Buy Social campaigns. The work which has already been undertaken relating to Buy Social may also illustrate how the principle of social investment - this time through procurement - can be deployed in practice. Indeed, if procurement policies are to shift with the intention to source more goods and services from social enterprises, investment in the more traditional conceptualisation is required to get the sector ready for the demands that will be placed on it¹⁴.

2.6: Increase financial literacy

Last but not least, it is crucial to develop the financial literacy of social entrepreneurs and citizens in general. Addressing and promoting financial literacy amongst this key group of entrepreneurs who wish to include social sustainability as a central tenet of their business model is essential. While there can be a big interest in social finance, investment and frameworks such as a Social Taxonomy, if social entrepreneurs do not have the knowledge, awareness or skills to utilise these tools then the impact of these new policies will be diminished. If this effort to educate and upskill this group is successful in conjunction with providing more financial products, it would increase the capacity of the sector to grow¹⁵. While investing in financial literacy is highly important for social entrepreneurs as a specific group, it is also an important life skill for all citizens in their various walks of life. The desire to increase citizens' financial literacy and awareness can be understood as part of wider policy agendas relating to lifelong learning and the development of key competences necessary for life in the 21st Century¹⁶.

⁹https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

¹⁰https://ec.europa.eu/regional_policy/sources/docgener/guides/public_procurement/2018/guidance_public_procurement_2018_en.pdf

¹¹Commission Notice: "Buying Social - a guide to taking account of social considerations in public procurement (2nd edition)". C(2021) 3573 final.

¹²https://ec.europa.eu/info/sites/default/files/file_import/european-semester_thematic-factsheet_public-procurement_en_0.pdf

¹³https://ec.europa.eu/regional_policy/sources/docgener/guides/public_procurement/2018/guidance_public_procurement_2018_en.pdf

¹⁴<https://www.oecd.org/cfe/leed/Policy-brief-Scaling-up-social-enterprises-EN.pdf>

3.0: Concluding remarks

Social enterprises illustrate how concerns over social and environmental sustainability can be put front and centre of business models with transparency, equity and equality included as part and parcel of their business philosophy. These enterprises are pioneering an economy that is more just, green and inclusive. These are the entrepreneurs and businesses that can help deliver a green and digital transition that puts people and the planet at its heart. These enterprises suffer however from a general misunderstanding and confusion over their business models and a lack of appreciation for the positive social impact they bring. With a Social Taxonomy, there is the possibility to remedy these issues - bringing a proper understanding and appreciation of the full impact of businesses' operations beyond simply returning a profit. A Social Taxonomy paves the way for investment decisions that seek a balance between social, environmental and financial sustainability. This will not only help social enterprise to start-up and scale-up but will also provide the resources necessary for all businesses to transform their processes and become more socially sustainable. In addition to recalculating investment decisions, new financial products that are better suited for these more socially minded businesses are required. These new approaches would also make existing financial products available to enterprises who strive for a more socially and environmentally sustainable world. An investment in financial literacy would maximise the benefit of these reformed processes and provision of these new financial products. Transparency and impact measurement are key to ensuring that businesses that claim to be acting in a socially sustainable manner are held to account and to understand the impact that a Social Taxonomy will have. While a Social Taxonomy as an initiative is warmly welcomed, it is reiterated that social investment and social enterprise cannot replace the role of governments nor government spending on sustainable welfare services.

Social enterprises are one piece of the puzzle as Europe searches for a route towards a more inclusive and sustainable future. They illustrate one way forward but without action from the wider economy and financial actors, the goal of a just green and digital transition that puts people and the planet at its centre remains indeed just that: a goal.