

Long-Term and Sustainable Investment

Including environmental, social and governance (ESG) issues in Investment activities of International and National Financial Institutions

Position paper

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ELTI members are committed to their public mission which includes sustainable management of own and public funds in the interest of the public. In order to perform due diligence for a responsible long-term investment both the strategic and financial analysis of investment decisions are considered, as well as an analysis of environmental, social and governance (ESG) issues (climate action, resource efficiency, job creation, social stability, fight against fraud, good governance, etc.). This set of decision criteria helps to contribute to a balanced and sustainable development of the economy and society.

1. Responsibility and sustainability through voluntariness

Private and public investors are financing various projects in very different environments. Due to their individual business model they could cover a broad variety of investment opportunities. Globally developed principles which aim to introduce ESG criteria exist already. They give the necessary flexibility to cover the vast majority of investors business models and individual approaches.

The benchmark for the inclusion of ESG-criteria in the investment process remains the Principles for Responsible Investment. The United Nations-supported Principles for Responsible Investment Initiative (UN-PRI) is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories in incorporating these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. Every signatory is committed to executing the UN-PRI principles.

The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Responsible investment is a process that must be tailored to fit each organisation's investment strategy, approach and resources. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors operating within a traditional fiduciary framework.

Nearly 1.500 asset owners, investment managers and service providers, representing USD 59 trillion in assets under management, have already signed this initiative. This

means the vast majority of important investors all over the world appreciate the flexibility and the dynamic approach of the UN-PRI.

Key success factors of the UN-PRI are:

- a) The commitment of transparency meaning every investor is reporting in a detailed, structured manner about the activities and progress towards implementing the principles. The reporting is publicly available¹.
- b) The global approach helps to allocate investment resources in a sustainable way across countries and continents.
- c) The training capacities of the PRI Academy facilitates the practical implementation of ESG issues in capital markets for the benefit of society.

ELTI members are convinced that the UN-PRI are an efficient tool to include ESG criteria in long-term investment decisions. The voluntary character of the UN-PRI helps to attract investments based on sustainable investment decisions which include ESG issues even in regions where this might not be the common sense today or where local investors don't have the capacity to include ESG criteria in their decisions up to now.

The key enablers for the growth of the Green Bond market are accountability and transparency, features which are promoted by the Green Bond Principles (GBPs). GBPs are voluntary process guidelines for Green Bond issuers, intended for broad market use, developed together by key market participants including issuers, investors and intermediaries. A high degree of product transparency, as advocated by the GBPs, raises market confidence and stimulates further investment. This can be seen as a virtuous cycle bringing momentum to climate action – a model which could be adapted also for wider ESG investment strategies.

One of the key success factors in both sets of principles or guidelines is transparency. However there are no established standards for the reporting inside UN-PRI and GBPs. Until more harmonisation is achieved, transparency is of particular value, including disclosure of methodologies and key underlying assumptions.

2. Responsibility and sustainability through (public) mission: Focus on transparency and accountability

The ELTI members are responsible long-term financing institutions. As such, they contribute to implementing EU- as well as national objectives aimed at delivering the aspirations of today's citizens for shared economic progress, without compromising the ability of future generations to meet their own needs. The mission is to foster sustainable development by supporting a growing, inclusive and ecologically sound economy. This derives from the status as public institutions fulfilling a national development mission and/or as multilateral borrowers and lenders, without the objective of profit maximisation.

¹ See for example: [KfW Public Transparency Report](#) or [APG Public Transparency Report](#)

Improving people's lives and building a more prosperous future are the ultimate aims of ELTI members' work. They thus primarily finance projects creating sustainable growth, promoting social development and stipulating environmental progress. There are specific areas addressed on a priority basis and with exact targets:

- Small and medium-sized enterprises & mid-caps: the creators of 80% of new jobs
- Environmental sustainability: including both climate action, notably energy efficiency measures, and investment in the urban and natural environment
- Innovation: promoting skills and innovation at every level
- Regional development: to address economic and social imbalances
- European and national Infrastructure
- Energy: building competitive and secure supply
- Social investments such as education, demographic change or migration

These focus areas may vary over time, according to global challenges and the evolution of needs, but will always be in line with the ultimate goal of promoting sustainable development.

ELTI members are obliged by their public mission to implement the most advanced standards and requirements which apply to all their operations - be it project work or its own organisation. Corporate responsibility and sustainability is at the core of ELTI members' strategy and is directly overseen at board level. All investments have to undergo comprehensive appraisal procedures that ensure conformity with self-imposed environmental, social, climate and governance standards that in many cases by far exceed legal requirements in countries of operation. The staff is trained to impose these criteria and empowered to take responsible decisions with zero tolerance on issues linked to fraud and corruption. To ensure integrity, ELTI members advocate and set up independent compliance functions in their organisations.

To ensure clients' performance meet their high standards, ELTI members support their clients with advisory services and technical assistance. ELTI members also carry out comprehensive ex-post evaluation procedures in order to determine actual project impact, and continuously strive to improve the way they operate.

ELTI members are sustainability leaders in numerous fields, with a particular stance in the area of climate change as well as growth and employment. The members cooperate with other private and public financial institutions, international financial institutions and industry leaders in order to be at the forefront of sustainable reasoning. Moreover, they contribute by providing innovative instruments, thus helping co-investors to make their portfolios more sustainable. Best practice established by ELTI members can serve the market as guidance for future action.

A good example is the leadership role that development institutions took in the Green Bond market. The greening of the bond market is expected to be vital for the future of climate finance, given the central role of bond markets in raising capital globally. Since

the issue of the first Green Bond by an ELTI member in 2007 many other public and private issuers have joined in to create a worldwide market in which a record 40 billion euros of bonds were issued in 2015.

ELTI members are convinced that the inclusion of ESG criteria into long-term investment decisions through the mission defined by the shareholders is at least an efficient solution for public investors who have public policy mandates. For private investors, broad market forums such as the UN-PRIs or GBPs can be an important means to advance the dialogue on long-term sustainable investments.

3. Responsibility and sustainability through legal obligation

Another approach for advancing the inclusion of ESG criteria into the decision-making process for long-term investments may be an explicit legal obligation for investors to consider such criteria within the scope of their fiduciary duties. This would require:

- a) Precise definition of the related terms in order to ensure clarity and understanding regarding the exact scope of application of any such obligation.
- b) Ongoing adaptation of the legal basis through constant and dynamic analysis of the evolving ESG parameters.
- c) Clear incentives for foreign investors not formally subject to the legal obligation to also abide by it.

In the opinion of ELTI members, there are compelling arguments suggesting that the voluntary market-led approach would be more effective than a strict legal obligation in furthering the inclusion of ESG criteria into investment decisions. The following reasons guide this position:

1. Financial markets, including the market for institutional investments are organised globally, therefore the response requires a global approach. A legal obligation which is limited, for example, to the EU could result in the relocation of investments to countries not subject to the legal obligation.
2. A legal obligation, placing the burden on investors, risks undermining the effective and broad based integration of ESG issues into mainstream investment decision-making. ELTI members agree that the best solution would be to complement the current regulatory framework with the development of common (EU) interpretation and guidance on the concept of fiduciary duty of investors, instead of imposing strict legal requirements
3. The broad and voluntary acceptance of the UN-PRI by investors all over the world supports the argument that an industry based approach can have equal or even higher impact compared to a legal obligation, which will struggle to capture all facets of ESG criteria.

The inclusion of ESG criteria into the decision-making process is for the benefit of both investors and society. Risks in the field of ESG, which may occur at the level of the single investment, also carry a reputational component for investors while the consequences for the public are in many cases significantly higher compared to the losses of an individual investor.

The experience of ELTI members, 27 major public long-term investors, underline the benefits of including ESG criteria in the decision-making process for long-term investments. The UN-PRI deliver a globally accepted and efficient framework for the inclusion of ESG issues, with a high positive impact due to the voluntary character.

ELTI members are convinced that the majority of serious shareholders, Limited Partners or other private asset owners will include ESG criteria in the decision-making process due to economic consideration. The impact of any legal obligation, which would not be a global approach, will be significantly lower compared to the voluntary initiative of the UN-PRI or the GBPs. ELTI members welcome voluntary official sector guidelines on how to include ESG criteria in long-term investment decisions, which build on established initiatives such as the UN-PRI or the GBPs and promote accountability and transparency in the field.

About ELTI

ELTI members represent an European-wide network of responsible long-term investors who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-border solutions or investments with a European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment activities in the narrow sense (equity investments). This ensures that specific needs are addressed by a specific solution notably for investments where a one-size-fits-all approach doesn't lead to optimal solutions.

This statement is endorsed by 27 major long-term investors, representing a combined balance sheet of over Euros 2.45 trillion, who are members of the European Long-Term Investors association (ELTI) a.i.s.b.l. The Association promotes and attracts quality long-term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level². ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions such as pension funds and associations³.

² Bulgarian Development Bank (BDB) Bulgaria, Federal Holding and Investment Company (SFPI) Belgium, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zaručni a Rozvojova Banka (CMZRB) Czech Republic, Danish Growth Fund (Vaekstfonden) Denmark, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National bank of Greece (NBG) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Banco BPI (BPI) Portugal, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

³ European Investment Bank (EIB), Nordic Investment Bank (NIB), Türkiye Sınai Kalkınma Bankası (TSKB) Turkey, Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), Algemene Pensioen Group (APG) The Netherlands, Consignment Deposits and Loans Fund (CDLF) Greece