Eurodiaconia

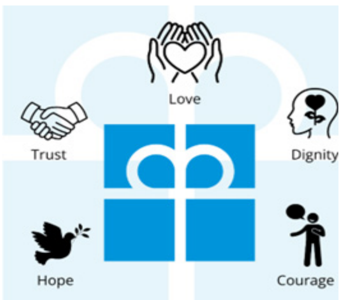
Connecting faith and social justice through action

POLICY PAPER: ENSURING A SOCIALLY JUST GREEN TRANSITION

December 2024

Eurodiaconia is a European network of churches and Christian NGOs providing social and healthcare services and advocating social justice.

ORGANISATION VALUES



OUR MISSION AND VISION

Inspired by our Christian faith, our vision is of a Europe where social injustice is eradicated and each person is valued, included, and empowered to realize their fullest potential, particularly the most vulnerable and marginalized. Together we work for just and transformative social change across Europe.

WHO WE ARE

Eurodiaconia is a growing European network of churches and Christian NGOs with 61 national and regional organisations providing social and healthcare services, as well as advocating for social justice. Eurodiaconia members provide diverse services to persons in need, working to see everyone live in dignity and their human rights are respected and protected. Services offered range from health care, childcare, elderly care, hospice and palliative care, youth inclusion programmes, employment and inclusion services to vulnerable groups such as migrants and Roma, housing services for persons experiencing homelessness and services to persons with disabilities. Eurodiaconia represents over 33.000 service centres, with approximately 1.000.000 staff and over a million volunteers are involved in providing diaconal services. For example one of our members Diakonie Deutschland is one of the largest providers of facilities for the care, support and persons in need in Germany. It offers 33.374 services and has a capacity of 1.18 million beds/spaces, it employs approximately 627.349 qualified staff and has over 700.000 volunteers. Similarly, one of our members in Czechia, Slezska Diakonie, is one of the largest non-profit organisations providing quality social services in Český Těšín region. It offers more than 100 social services in more than 60 centres and has over 1200 employees. In France, our member Fédération de l'Entraide Protestante (FEP) represents approximately 370 member associations and foundations and provides more than 1000 services, with 24.000 employees and over 15.000 volunteers. These three organisations are just examples of the breadth of the delivery of the mission and vision of Eurodiaconia.

Author: João Verdelho
Editors: Heather Roy
Design: João Verdelho, Lana Pope & Donal Brady

Funded by
the European Union

Funded by the European Commission under the ESF+ programme 2022 – 2025.
The information contained in this document does not necessarily reflect the position or opinion of the European Commission.

TABLE OF CONTENTS

INTRODUCTION: WHY THIS POLICY PAPER?

SETTING THE SCENE: CLIMATE CHANGE AND SOCIAL RIGHTS

The unprecedented changes in climate have profound interconnected social implications, including impact on **health** (e.g. air quality), **housing** (e.g. impacted by natural disaster, price increase due to energy efficiency standards), **access to food** (e.g. crops impacted by natural disasters), and **employment** (e.g. changing economy for coal regions). Moreover, according to the European Commission and academia[1], individuals in vulnerable conditions are more susceptible to the impacts of climate change and possess a diminished capacity to cope with changes, thereby being disproportionately affected by the rapidly evolving environment.

To face climate alterations, over the past decades, the European Union has formulated policies aimed at reducing its environmental footprint and achieving a low-carbon economy. Despite the success of some of these policies, the journey to carbon neutrality is far from over.[2] Additionally, it is crucial to emphasize that environmentally driven measures can, if not carefully crafted, often adversely affect social rights and disproportionally impact vulnerable groups. Therefore, integrating the concept of "Just Transition" is essential in the process of transitioning to a low-carbon and environmentally sustainable economy within the EU.[3]

THE CONCEPT OF JUST TRANSITION: BRIDGING SUSTAINABILITY AND SOCIAL EQUITY

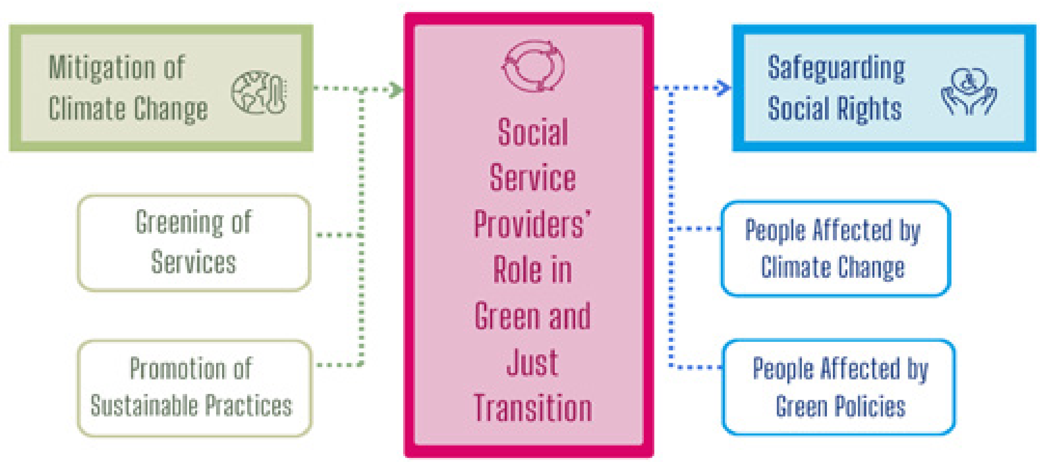
According to the United Nations, Just Transition is defined as a transition to low-carbon and environmentally sustainable economies and societies in which no one is left behind. Consequently, just transition implies that environmental measures go hand-in-hand with social considerations and ensure no one is disproportionately affected by the process. To achieve this, environmental policies should be based on social equity in order to protect vulnerable people, often already disproportionately affected by climate change.

1. https://www.lshtm.ac.uk/newsevents/news/2023/hotter-temperatures-linked-increased-risk-hospitalisation-londons-homeless; Why climate change is hitting the poorest hardest (economist.com)
2. According to the Eurobarometer 2024, 81% citizens agree that implementing a climate neutrality target will contribute to Europe's fight against climate change and to the protection of the environment: https://europa.eu/eurobarometer/surveys/detail/3229
3. https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-excerpt-2023-1.pdf Just Transition concept

THE ROLE OF SOCIAL SERVICE PROVIDERS: SUSTAINABILITY WHILE SUPPORTING PEOPLE

In the current political and legal landscape, Eurodiaconia members are increasingly acknowledging the critical role they must play in advocating for an equitable environmental transition. This transition aims to mitigate the impacts of climate change but also ensure that vulnerable communities—often those supported by diaconal organizations—are not disproportionately affected by environmentally motivated policies. Although environmental sustainability may not be the primary focus of social service providers, by prioritizing it, diaconal organizations fulfil their mission to serve the most marginalized populations. Consequently, environmental sustainability is not merely an optional addition but a fundamental component of diaconal service delivery.

In this context, social service providers play a dual role in ensuring a green and just transition. The first aspect of their role involves mitigating climate change which includes delivering services in an environmentally sustainable manner and promoting sustainable practices within the communities they serve. Secondly, social service providers are crucial in safeguarding the social rights of vulnerable communities. Consequently, the supportive aspect of their role in a just transition is particularly significant, as it involves assisting individuals disproportionately affected by climate change and green policies.



THE ROLE OF EURODIACONIA

As a network of Christian non-profit organizations and social service providers, Eurodiaconia reaffirms the crucial role of its members in pursuing a just transition grounded in the God-given dignity of all individuals. This dignity serves as the foundation for our commitment to ensuring that low-income groups are not disproportionately impacted by climate change, and that social service providers are empowered to embrace this transition.

Eurodiaconia's role is to assist its members in their efforts to achieve sustainable service delivery and support their mission to ensure no one is left behind. Through various tools, such as advocacy at the European level, sharing of positive practices and support for national initiatives, Eurodiaconia aims to establish an enabling framework that will empower social service providers to fulfil this crucial aspect of their mission.

WHY START TODAY?

Eurodiaconia's initiatives to integrate and establish a conducive framework for a Just Transition have never been more pertinent:

From an **environmental standpoint**, Europe has recently encountered unprecedented climate disasters, including wildfires and severe floods, underscoring the urgent necessity for a swift transition to a low-carbon economy.

From a **policy perspective**, numerous environmentally driven policies have been instituted, and their implementation is poised to have a profound and unpredictable impact on social rights, affecting not only vulnerable populations but the entire societal spectrum, including social and health services delivery. Consequently, this is a critical period for advocating towards further incorporation of social considerations in the execution of climate policies and mitigating potential adverse social impact.

From a **political viewpoint**, social cohesion is increasingly strained across the EU, particularly as low-income groups may feel alienated or adversely affected by environmental policies. By ensuring that the benefits of these policies are equitably distributed and actively involving these communities in the transition process, we can reinforce social cohesion and foster a more unified response to the challenges posed by climate change.

At **European level**, there is significant momentum to embed social considerations within green policies. The President of the Commission, in the political guidelines that will direct the Union's activities for the next five years (2024-2029), emphasizes the imperative of ensuring a just transition for all and promises a substantial increase in funding for a just transition in the forthcoming long-term budget. Additionally, in the European Commission's mandate for 2024-2029, there will be a commissioner dedicated to overseeing clean and just transition efforts.

CHALLENGES TO ENSURE A JUST TRANSITION

In response to the pressing issue of climate change, the European Union has, over the past decades, formulated and implemented policies aimed at reducing its environmental footprint and transitioning towards a low-carbon economy. The European Green Deal stands as the cornerstone of this initiative and promotes a comprehensive cross-sectoral approach, ensuring that every policy domain contributes to achieving climate neutrality.

A just transition aspires to leave no one behind and guarantee that the most vulnerable benefit from the transition. However, vulnerable individuals continue to face significant challenges related to climate change and the shift towards a carbon-neutral economy. Similarly, social service providers encounter numerous obstacles in fulfilling their dual role of mitigating climate change and supporting vulnerable populations throughout this transition. This section delves into the primary challenges faced in this context.

THE CHALLENGING BACKGROUND: ESCALATING CLIMATE CHALLENGES AMID EUROPE'S INFLATION CRISIS

Over the past four decades, extreme weather has caused economic losses amounting to half a trillion euros and resulted in the deaths of between 85,000 and 145,000 individuals. This dire situation has only worsened, as evidenced by recent events:

The summer of 2024 was the hottest on record for both Europe and the world. In the first nine months of 2024 alone, wildfires ravaged over 370,000 hectares of forest. Additionally, severe flooding in September affected approximately two million people across Central Europe. In October, floods in Valencia claimed 230 lives and devastated homes and businesses.[4]

Furthermore, compounding the situation, the economic scenery is also challenging. The European Economic and Social Committee reported that, in 2023, inflation in the EU reached its highest level since the introduction of the euro. In that same year, 96.5 million Europeans faced the risk of poverty and social exclusion. These individuals are particularly impacted by the widespread increase in the prices of goods and services, escalating energy costs, and the consequent loss of purchasing power. [5]

In this context, providing support to vulnerable individuals and ensuring that no one is left behind becomes increasingly difficult. The growing number of people in need of assistance, coupled with the diminishing resources available to public authorities, social service providers, and other stakeholders—who are themselves affected by these challenging conditions—exacerbates the exigent nature of the situation.

4. https://www.eea.europa.eu/en/topics/in-depth/extreme-weather-floods-droughts-and-heatwaves#:~:text=The%20summer%20of%202024,severe%20flooding%20in%20September%20alone
5. https://www.eesc.europa.eu/en/news-media/news/eu-records-highest-level-inflation-euro-introduction-965-million-people-risk-poverty

INSUFFICIENT FUNDING FOR SOCIAL SERVICE PROVIDERS

Through their innovative strategies, not-for-profit social services and social economy actors meet unaddressed community needs while combating the environmental crisis. However, many of these organisations are currently at risk of losing their capacity to continue fulfilling their essential roles.[6] Failing to support their transition would lead to a significant social disaster for their communities.

Besides the social dimension, from an economic standpoint, Letta's report highlights how underinvestment in Services of General Interest poses a substantial barrier to the EU's economic goals.[7] It equally highlights that ensuring the rhesilience and sustainability of social services requires adequate and sustainable financing. Nevertheless, the current lack of social investments is critical and further exacerbated by the challenges of the green transition.[8]

The efforts for a green economy intensify the need to support vulnerable populations facing higher costs for energy, housing, and job losses in traditional industries. In addition, social service providers, already under financial strain, are also compelled to transition to more sustainable practices themselves.

Eurodiaconia is **deeply concerned about the insufficient support for social service providers, not only to maintain their crucial services but also to invest in green service delivery.** Eurodiaconia members have reported that, in several instances, there is a willingness to renovate infrastructure or adopt more sustainable practices, but the necessary incentives are lacking, and obstacles persist. For instance, in Latvia, an Eurodiaconia member planned to renovate their car fleet. Despite considering electric vehicles, the organization was unable to secure support and had to resort to fossil fuel-based alternatives.

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- The EU should work towards ensuring sustainable funding for social services, emphasizing their critical role in achieving long-term social and economic benefits. To encourage such investment, it is **crucial to simplify and minimize administrative burdens.** Among other measures, streamlining procurement procedures across the EU could be crucial to increase funding for social services. Moreover, the EU Institutions should simplify the classification process for Member States to facilitate access to state aid.

6. Read more about financing of Social Services: inhttps://www.eurodiaconia.org/wordpress/wp-content/uploads/2024/12/Future-of-Social-Services_10122024.pdf
7. https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
8. https://www.eurodiaconia.org/wordpress/wp-content/uploads/2024/12/Future-of-Social-Services_10122024.pdf

- The next MFF shall include the integration of environmental and social criteria. Namely, the **MFF shall include dedicated budget allocation to enable non-profit organizations to access green technologies and infrastructure**, and to finance support measures and social inclusion programs towards the most vulnerable.
- Member States are encouraged to **create national social investment plans** that detail strategies for financing social services and ensuring long-term sustainability.

CARBON PRICES AND INADEQUATE SUPPORTIVE MECHANISMS

The establishment of a second **EU Emissions Trading System (ETS2)**, encompassing road transport and buildings, is designed to significantly advance decarbonization efforts. Within this new regulatory framework, fossil fuel suppliers will be mandated to acquire allowances through auctions and subsequently surrender them annually, corresponding to the emissions generated by the fuels they distribute. From an environmental standpoint, this initiative aims to encourage shifts in consumer behaviour and stimulate both private and public investments in low-carbon technologies.

Conversely, from a social perspective, this policy is **projected to have major social impacts and disproportionately affect low-income households.** Although large fuel suppliers will bear the responsibility for compliance and the associated costs of allowances, these expenses will inevitably be transferred to consumers, resulting in increased prices for coal, oil, natural gas, gasoline, and diesel.

During the initial three years, should the price of allowances surpass €45 (adjusted for inflation to 2020 prices), supplementary allowances may be introduced from the ETS2 market stability reserve to mitigate excessive pricing. Nevertheless, a study conducted by Veyt, a data company specializing in carbon markets, along with other forecasts, indicates that prices exceeding €200 per ton are anticipated.[9] This projection is more than four times the already pessimistic forecast by the EU. Analysts further elaborate that such carbon price levels could lead to a potential rise in fuel prices of 50 cents per litre due to ETS2. [10]

Furthermore, the challenge imposed by ETS2 will vary significantly among households, contingent upon their energy consumption, financial capacity, and adaptability. The European Commission indicates that low-income households will encounter greater difficulties as they allocate a larger share of their income to energy expenses and possess limited means to adapt.[11] Additionally, elevated transportation costs may further exacerbate poverty and social exclusion for these vulnerable groups.

From a household perspective, lower-income families in Europe tend to depend on oil boilers, gas boilers, and fossil fuel-powered vehicles, rather than more energy-efficient alternatives like heat pumps and electric vehicles. This tendency is primarily due to the financial barriers, as these advanced technologies entail

---

9. https://www.veyt.com/events/ets-2-could-see-allowance-price-above-eur-200-t ; https://carbon-pulse.com/271109/
10. https://carbon-pulse.com/330605/
11. https://www.eumonitor.eu/9353000/1/j4nvhdfdk3hydzq_j9vvik7m1c3gyxp/vlki7cdr58ze

substantial upfront costs despite their long-term economic and environmental benefits.[12] Consequently, low-income households are disproportionately impacted by ETS 2.

On a broader scale, the relative burden of ETS2 is anticipated to be more pronounced in lower-income countries. Hungary, Poland, and Lithuania are expected to experience the highest additional expenditures for heating and mobility.[13] In these nations, rural households are more likely to face energy and transport poverty.

The projected increase in transportation and heating costs, prompted by the introduction of ETS2 **will also have challenging implications for social service providers** supporting the most vulnerable. Notably, the provision of social services will become more expensive and organizations with older facilities, which inevitably rely on fossil fuels, will be particularly affected.

Inadequacy of supportive mechanisms to mitigate impacts of carbon price

EU countries will invest part of their revenue from the new ETS 2 in climate and energy transition projects, aiming to ensure a green transition for all. Central to these investments is the Social Climate Fund. The fund is dedicated to supporting the most vulnerable groups, namely households, micro-enterprises and transport users specially affected by the introduction of the ETS2.

While acknowledging the Social Climate Fund as a significant step towards integrating social considerations within the Green Deal framework, it harbours deep concerns regarding the sufficiency of resources allocated to the fund. Notably, with a total cap of 65 billion euros, only a limited portion of ETS2 earnings will be directed towards supporting vulnerable individuals affected by the policy, which, lacks a price cap. Such limitation can significantly hinder its capacity to address the needs it claims to meet.

Eurodiaconia further underscores the challenge of promptly implementing measures to anticipate and harmonize the impacts of the carbon market. This concern is compounded by historical delays in national compliance with environmentally motivated legislation.[14]

Additionally, Eurodiaconia voices apprehension about the development of national Social Climate Plans. As the deadline approaches, members have reported **difficulties in obtaining information about the consultation process and how to engage** in the plan's construction. Given that civil society organizations and social service providers possess firsthand experience in supporting vulnerable populations, meaningful consultation is crucial for developing effective measures and support mechanisms for those impacted by the forthcoming ETS2. Consequently, alongside concerns about the adequacy of financial resources,

12. https://studenttheses.uu.nl/bitstream/handle/20.500.12932/45881/Master%20Thesis%20Moniek%20van%20Zantvoort%206583393.pdf?sequence=1&isAllowed=y ; https://www.ehpa.org/wp-content/uploads/2024/04/Financial-barriers-to-the-widespread-adoption-of-heat-pumps_Final-version_April-2024.pdf
13. https://adelphi.de/system/files/document/policy-report_putting-the-ets-2-and-social-climate-fund-to-work_final_02.pdf
14. For instance, 26 EU countries were reprimanded for their tardiness in implementing ETS2 provisions: https://carbonmarketwatch.org/2024/09/04/eu-governments-miss-crucial-deadline-to-pass-new-emissions-trading-system-into-national-legislation/

Eurodiaconia emphasizes the importance of timely and targeted delivery of the plan to address the needs of vulnerable individuals.

Finally, while the establishment of the **Just Transition Mechanism (JTM)** and the Just Transition Fund (JTF) is commendable, as they aim to foster the creation of new green jobs and facilitate the reskilling of the workforce in affected regions, there are notable limitations. The JTF's focus is predominantly on employment, research, and innovation. Although these elements are crucial for expediting the green transition, the framework lacks a comprehensive social dimension. Consequently, Eurodiaconia underlines the framework's inadequacy in addressing the social repercussions of environmentally driven measures, namely the introduction of the ETS2.

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- By redirecting the proceeds from the carbon price back into society, it is possible to alleviate adverse price impacts and overcome investment barriers. This strategy seeks to counteract the regressive effects of the carbon price and address broader social issues such as energy and transport poverty. In this light, Eurodiaconia advocates for the **enhancement of the Social Climate Fund by removing the 65-billion-euro cap** and allocating the entirety of ETS2 earnings to the fund.
- Prior to advancing the EU Green Deal, the European Commission should incorporate a comprehensive s**ocio-economic impact assessment for all environmental legislation**. This will help to deeply grasp the social implications of the Green Deal and ensure that sufficient resources are available to address the associated social risks.
- Member States should take all the possible steps to **deliver and implement the Social Climate Plans within the timeframe established by the EU.** This implementation shall target vulnerable people, be based on a needs assessment, and avoid administrative barriers and offsetting against other social benefits.
- Member States should **cooperate closely with Civil Society and Social Service Providers,** as organisations with first-hand expertise in working with vulnerable people, **to implement and monitor the implementation of the Social Climate Plans.**
- To ensure that the green transition effectively reduces transport poverty rather than exacerbating it, it is essential to make public transport affordable, while increasing its geographical coverage to reach low-income households and vulnerable groups, who rely on it more frequently. This can be achieved through measures such as reduced tariffs or lowering costs for these groups. Expanding, developing, and enhancing the availability and accessibility of transport infrastructure can significantly benefit people living in rural areas, helping to bridge the rural-urban divide and foster social cohesion. Therefore, Eurodiaconia recommends that **Member States develop targeted public transportation policies** to ensure that increases in carbon pricing do not lead to greater transport poverty and social exclusion.

CHALLENGING EU LEGAL FRAMEWORK

Regulatory overlapped and overburden

In his report, Draghi highlights that the European Union's legislative framework is characterized by overlapping regulations and occasional incoherences.[15] Over the past decade, numerous legislative measures have intersected, and this trend is anticipated to continue through 2030. Furthermore, the coherence of these regulations has not always been maintained.

A significant challenge arises from the regulatory burden related to the EU's sustainability reporting and due diligence framework. Notably, compliance with these regulations imposes substantial financial and human resources for social and health service providers to which they are applicable. Additionally, there is a risk of overcompliance, such as excessive reporting, due to the lack of guidance to facilitate the application of complex and overlapping regulations.

Eurodiaconia Members in Germany, Austria and Finland have welcomed the existence of a reporting mechanism to foment environmental accountability within the EU Framework. However, they also state that the compliance with the reporting standards of the CSRD has been a major challenge financially and administratively.

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- Eurodiaconia recommends that the EU Commission provides a **clear guidance to aid in the implementation of EU regulations.** This guidance should ensure a better understanding of the interaction between various legal instruments and clarify legal concepts.
- Eurodiaconia recommends the **streamlining of the EU reporting procedures to eliminate redundancies and inconsistencies.** Moreover, EU Institutions should ensure that the upcoming legislative initiatives are coherent with the current framework and avoid further administrative burden to social service providers.
- Member States are recommended to **financially support social service providers in their efforts to comply with the EU regulations** and mitigate the associated financial constraints.

Increasing Energy Performance Standards

Since the start of the energy crisis in September 2021, €651 billion has been allocated by Member States and earmarked across European countries to shield consumers from the rising energy costs.[16] Therefore, it is very urgent to transition into energy-efficient buildings, for both environmental and economic reasons.

---

15. https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf
16. https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices

In this light, the legislative initiative (Energy Performance of Buildings Directive) to reduce buildings emissions and help increase the rate of renovation in the EU is seen in a positive light. Particularly, Eurodiaconia welcomes the emphasis on renovating vulnerable households' dwellings. However, the revision of the directive **poses certain challenges and might prove damaging for social and health service providers** if not implemented prudently: Article 9 of the Energy Performance of Buildings Directive (EPBD) mandates that Member States establish minimum energy performance standards (MEPS) for non-residential buildings. Furthermore, Member States are required to implement these standards, including the imposition of penalties, which according to Article 34, must be effective, proportionate, and dissuasive.

In this context, it is crucial to note that many social and healthcare providers operate in older buildings with low energy performance and have limited resources for renovations that, to ensure compliance with the directive, can be extremely expensive and technically demanding. Furthermore, despite their critical role in supporting vulnerable populations in the green transition, they are not exempt from complying with MEPS.[17]

Consequently, these providers may face penalties or be forced to relocate to newer buildings, incurring in higher costs and potentially ceasing their crucial services. For instance, a member of Eurodiaconia in Germany reported that the high risk posed by this measure, among other policies, has compelled the organization to sell old buildings and rent newer facilities in which the energy costs are subsidized.

Moreover, the Directive **poses risk to individuals, particularly those living in energy poverty or risk of energy poverty**. In the European Union, the primary causes of energy poverty and tenure insecurity stem from low incomes, high rents and energy prices, and inadequate energy efficiency in homes.[18]Therefore, despite the framework's recognition of the risks faced by vulnerable populations, the focused implementation of the Energy Performance of Buildings Directive (EPBD) is crucial. Vulnerable individuals often struggle to afford the initial costs of energy-efficient upgrades, potentially exacerbating disparities in access to energy-efficient housing. Although energy-efficient buildings can reduce long-term energy costs, the upfront expenses can impose significant financial burdens.

In this setting, special attention must be given to tenants, as landlords may transfer the costs of energy-efficient improvements to them through increased rents, thereby making adequate housing less affordable. Furthermore, renovations can sometimes require displacement of residents, particularly when extensive work is required. Consequently, low-income tenants, who typically reside in the lowest quality housing, are at risk of evictions prompted by renovations and should receive targeted support to prevent homelessness.

17. Member States have the authority to exempt specific categories of buildings from complying with MEPS in both non-residential and residential sectors. These exemptions are primarily based on the building's specific use, such as for religious activities, industrial sites, agricultural buildings with low energy demand, temporary structures intended for use over a period of two years or less, and buildings used for national defense purposes.
18. https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733583/EPRS_BRI(2022)733583_EN.pdf

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- Eurodiaconia strongly recommends a **diligently monitoring of the social impact of the Directive's implementation by the European Institutions.** The monitoring should focus on assessing that energy-poor households are a priority in obtaining financial support and that no one is left behind.
- Member States shall **ensure that financial and technical support mechanisms target the most vulnerable**, specifically people in situation of energy poverty. Meaningful engagement with civil society and social services providers working closely with communities must be in place to identify the needs and prioritize the financial and technical support.
- Member States **must guarantee that social and health providers serving vulnerable people are prioritized in the development of the National Building Renovation Plans**. This entitles being covered by the financing options and have the necessary technical support and guidance to complete the renovations and consequently ensure compliance with the MEPS.
- Member States shall guarantee, subsidiarily to ensuring the proper renovation, that **organizations providing health and social services are exempted from any potential penalties that would undermine the impact of their work**.
- Member States shall ensure **dedicated subsidies are available for low-income property owners to renovate for energy efficiency**. In addition, Member States must work with the financial sector to ensure accessibility of financing, through low-interest loans tailored to cover renovation costs, to be made available to not-for-profit social and health care service providers.
- Member States are recommended to **implement legally binding regulations that prevent landlords from increasing rents disproportionally following environmentally motivated renovations.** In order to prevent evictions prompted by renovations Member States are recommended to establish rent stabilization measures or limits on rent increases.
- Member States are recommended to **increase their investments in green, social and affordable housing.**

Increasing obstacles to obtain bank loans for Social Service Providers

As part of its sustainability initiatives, the European Union has identified the financial sector as a key lever to achieve its sustainability objectives. The Sustainable Finance Action Plan outlines several instruments for banks to facilitate climate-friendly investments, including the EU Taxonomy, Green Bond Standard, Benchmarking, and Reporting mechanisms such as the Corporate Sustainability Reporting Directive (CSRD). While acknowledging the necessity to involve every sector in the efforts towards a carbon-neutral economy, Eurodiaconia expresses **concern about potential indirect challenges for social service providers.**

In certain EU countries, such as Germany, refinancing systems pose difficulties for social enterprises in

meeting the standard financial covenants required by banks. As a result, these enterprises rely heavily on traditional bank loans to renovate their aging property portfolios for energy efficiency.[19]
With the introduction of new EU regulations and their subsequent national implementations, banks are now mandated to integrate Environmental, Social, and Governance (ESG) factors into their credit risk strategies. Consequently, social enterprises and social and healthcare service providers, like all other companies, must provide data on their sustainability performance. During the bank's analysis, they must assess the debt servicing capacity and payment ability of the organization, alongside their credit rating, to determine an ESG risk score. Naturally, this score then influences the credit conditions offered to the social entity.

In this context, Eurodiaconia is concerned that social service providers may struggle to secure favourable investment conditions, as historically their property portfolios often yield negative results in ESG scoring, endangering their financial sustainability and hindering their capacity to transition to more sustainable practices.

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- Eurodiaconia encourages the European Union to proactively address the situation of access to financing for social and healthcare providers. To do so, The European Union should **continue working towards the development of a Social Investment Framework,** grounded in the existing standards. It is essential to delineate clear and precise definitions within this framework. While preserving its voluntary nature, such framework is indispensable for addressing the significant need for social investments, overcoming financial barriers, and fulfil investors demand for social impact opportunities.
- Meanwhile, member states **must ensure better access to financing for social and health care service providers according to national frameworks**. Notably, Member States should explore innovative financing models, such as social impact bonds or blended finance, to bridge the funding gap. Regular consultations with social and healthcare providers should be established to identify financial barriers and co-develop solutions tailored to the needs of these sectors.

Increasing obstacles to textile-related projects

In 2023, the European Commission proposed revisions to the **Waste Framework Directive** aimed at increasing recycling rates, reducing waste, and improving hazardous waste management. These changes are intended to align waste practices with the EU's environmental and climate goals, thereby promoting a sustainable and circular economy.

While Eurodiaconia welcomes the recognition of social economy entities as key players in the textile sector, its members, who are deeply involved in textile projects[20], have **significant concerns about**

19. https://www.rummelsberger-diakonie.de/fileadmin/user_upload/Nachhaltigkeit_als_Insolvenzfalle_f%C3%BCr_die_Sozialwirtschaft.pdf
20. https://www.eurodiaconia.org/wordpress/wp-content/uploads/2024/12/Just_-Transition_1612.pdf

certain aspects of the proposed revisions. The Council's suggestion[21], to broaden the definition of products introduced to the market for the first time undermines the foundational principles of producer responsibility. Second-hand products, which enter the market repeatedly, should not incur fees. Imposing such charges would divert responsibility from producers and adversely affect the second-hand textile market, which plays a vital role in achieving a green and equitable transition.

Eurodiaconia is particularly concerned about the provision allowing Member States to request Producer Responsibility Organisations (PROs)[22] to require contributions from social economy actors involved in textile reuse (Article 22a, paragraph 6). Although this provision is voluntary and the financial contributions are lower than those requested from producers, it contradicts the "polluter pays" principle. Ultimately, this provision would compel social enterprises and non-profit organizations to bear the financial burden for garments they did not manufacture, rather than receiving the necessary financial support for their reuse initiatives.

RECOMMENDATIONS TO EUROPEAN INSTITUTIONS AND MEMBER STATES

- Eurodiaconia strongly recommends that the Council proposed amendment to require contributions from social economy actors should be reverted to the Commission's original proposal. Therefore, it is **recommended that article 22a, paragraph 6 (introduced in the Council's general approach) is removed from the final text of the revised Waste Framework Directive.**
- Eurodiaconia advocates that **Extended Producer Responsibility fees should comprehensively cover all expenses related to re-use and preparation for re-use activities undertaken by social enterprises,** including the management of residual waste.
- Eurodiaconia members acknowledge the critical importance of reporting, particularly within the second-hand textile sector, to combat misinformation and enhance transparency. However, reporting is an increased burden that organisations might not have the capacity to comply with. Therefore, while welcoming the potential exemption from annual reporting (introduced by the Council in Article 11b) for social economy entities[23], it is essential to recommend the strengthening of this provision. In this regard, **reporting should not be a legal obligation for social economy entities but rather a voluntary option,** thereby avoiding the imposition of additional administrative burdens.

---

21. Council General Approach - https://data.consilium.europa.eu/doc/document/ST-11300-2024-INIT/en/pdf
22. A PRO is a collective body operating nationally which takes charge of meeting the legislative requirements of producers on their behalf and against a financial contribution on their part.
23. For social economy entities that do not export used or waste textile, textile-related and footwear products where the fulfilment of such reporting obligations results in a disproportionate administrative burden on such entities - https://data.consilium.europa.eu/doc/document/ST-11300-2024-INIT/en/pdf

RECOMMENDATIONS

Despite the current challenging context and the substantial work that lies ahead, Eurodiaconia is determined to work for a green transition that is socially beneficial to all, including the most vulnerable. To this end, it is imperative that environmentally driven measures are complemented by social considerations and adequate supportive mechanisms. Furthermore, it is essential to create an enabling environment for social service providers, empowering them to effectively support vulnerable individuals amidst the challenges posed by climate change and the requirements imposed by the green transition. Therefore, Eurodiaconia presents the following recommendations to the European Institutions and national governments:

ENSURE SUSTAINABLE FUNDING FOR SOCIAL SERVICE PROVIDERS IN THE CONTEXT OF THE GREEN TRANSITION

- EU Institutions are recommended to **continue working towards the development of a voluntary Social Investment Framework.**
- EU Institutions are recommended **to allocate dedicated budget to enable non-profit organizations to access green technologies and infrastructure in the next MFF, and to finance support measures and social inclusion programs towards the most vulnerable.**
- The EU Institutions are recommended **to simplify and minimize administrative burdens to access funding,** namely facilitating Procurement and State Aid procedures.
- Member States are encouraged to **create national social investment plans** that detail strategies for financing social services and ensuring long-term sustainability.

EFFECTIVE MITIGATION OF CARBON PRICE INCREASE:

- The EU Institutions are recommended to **strengthen the Social Climate Fund** by removing the €65 billion cap and allocating all ETS2 earnings to the fund.
- Member States are recommended to i**mplement the Social Climate Plans within the EU's timeframe,** targeting vulnerable people and avoiding administrative barriers.
- Member States are recommended to **implement and monitor the Social Climate Plans in close cooperation with Civil Society and Social Service Providers.**
- Member States are recommended to **implement the Social Climate Plans within the EU's timeframe**, targeting vulnerable people and avoiding administrative barriers.

ALLEVIATE EU REGULATIONS' OVERBURDEN AND FACILITATE COMPLIANCE:

- The EU Commission is recommended to provide **a clear guidance to aid in the implementation of EU regulations,** for a better grasping of the legal instruments and clarifying legal concepts.
- The EU Institutions are recommended to **streamline its reporting procedures to eliminate redundancies and inconsistencies.**
- Member States are recommended to **financially support social service providers in their efforts to comply with the EU regulations.**

ENSURE A SOCIALLY BENEFICIAL RENOVATION OF LOW-ENERGY BUILDINGS IN EUROPE:

- The EU Institutions are recommended to **monitor the social impact of the EPBD's implementation**, with a particular focus on energy-poor households, both owners and renters.
- Member States are recommended to **ensure that financial and technical support mechanisms target the most vulnerable**, with engagement from civil society and social service providers.
- Members States are recommended to **prioritize social and health care providers in National Building Renovation Plans**, ensuring they receive necessary support and guidance. Subsidiarily, exempt health and social service organizations from penalties that could undermine their work.
- Member States are recommended to ensure that **financial instruments are available for low-income property owners to renovate for energy efficiency.**
- Member States are recommended to **implement legally binding regulations that prevent landlords from increasing rents disproportionally following environmentally motivated renovations.**
- Member States are recommended to **increase investments in green, social, and affordable housing.**

PROMOTE AN ENABLING ENVIRONMENT FOR SOCIAL ACTORS IN THE TEXTILE SECTOR:

- The EU Institutions are recommended to remove **article 22a, paragraph 6** (introduced by the Council) **from the final text of the revised Waste Framework Directive** and avoid that social enterprises and non-profit organizations bear the financial burden for garments they did not manufacture.
- The EU Institutions are recommended to **strengthen the provision on reporting exemption of the article 11b** (introduced by the Council) in the Waste Framework Directive Revision and ensure that reporting **is not a legal obligation for social economy entities but rather a voluntary option.**
- The EU Institutions are encouraged to ensure **EPR fees cover all expenses related to re-use and preparation for re-use activities undertaken by social enterprises.**

ANNEX 1: EUROPEAN UNION FRAMEWORK ON GREEN AND JUST TRANSITION

Recognizing the critical importance of combating climate change, European policymakers have enshrined in the EU Climate Law a legally binding target of attaining climate neutrality by 2050.[24] Furthermore, this legislation mandates a reduction in net emissions by 55% by 2030. To realize these ambitious goals, the European Green Deal has been introduced as the strategic framework guiding the EU towards environmental sustainability. [25]

THE EUROPEAN GREEN DEAL

The European Green Deal, introduced in 2019, aims to achieve climate neutrality in the EU by 2050.[26] This means reaching net zero greenhouse gas emissions across EU countries. The primary strategies to achieve this include reducing emissions, promoting green technologies, and preserving the natural environment. The European Green Deal emphasizes a comprehensive and cross-sectoral approach, aiming to ensure that all policy areas contribute to the climate neutrality goals. Some of the key initiatives relevant to Eurodiaconia work under the European Green Deal include:

FIT for 55

The Fit for 55 package is a set of proposals to update EU laws and introduce new initiatives to align with climate goals set by the Council and the European Parliament. These proposals aim to establish a strong framework for achieving climate targets, ensuring a fair transition, boosting innovation and competitiveness, and maintaining the EU's leadership in the fight against climate change.

European Emission Trade System 1

The European Union Emissions Trading System (EU ETS), inaugurated in 2005, stands as a cornerstone of the EU's climate policy and serves as a pivotal instrument for the cost-effective reduction of greenhouse gas emissions. As the world's first carbon market, it remains one of the largest globally.

The EU ETS operates on a system of allowances, where each allowance permits the emission of one ton of CO_2 or an equivalent amount of other potent greenhouse gases, such as nitrous oxide (N_2O) and perfluorocarbons (PFCs). Annually, companies in several key sectors are required to monitor and report their emissions, surrendering allowances equivalent to their CO_2 emissions. Non-compliance results in substantial fines.

24. https://climate.ec.europa.eu/eu-action/european-climate-law_en
25. https://ec.europa.eu/stories/european-green-deal/
26. https://www.consilium.europa.eu/en/policies/green-deal/

Allowances can be purchased from EU countries through auctions and subsequently traded by companies. To prevent companies from relocating to countries with less stringent climate policies and continuing to emit CO2, certain industries receive a portion of their allowances for free. However, the total number of allowances is capped, limiting the overall emissions from these sectors. This cap is also reduced annually, thereby driving down emissions.

When a company purchases an allowance, the revenue is primarily allocated to funding climate and energy projects across the EU, including the scaling up of green technologies and the modernization of energy infrastructure in lower-income EU countries, with the aim of ensuring a fair green transition.
Until 2024, the EU ETS covered large industries, electricity generation, and aviation within Europe. Emissions from industry and electricity generation have already decreased by 47% compared to 2005 levels, when the ETS was introduced.

The EU ETS is now being expanded and strengthened. By 2030, it aims to reduce emissions by 62% compared to 2005 levels. The system will extend to cover emissions from shipping starting in 2024. By 2026, the "polluter pays principle" will fully apply to aviation.[27] For other sectors, such as steel, cement, and aluminium, free allowances will be gradually phased out by 2034.

Carbon Border Adjustment Mechanism

To combat carbon leakage[28] and ensure fair competition, the EU has introduced the Carbon Border Adjustment Mechanism (CBAM) alongside the Emissions Trading System (ETS). Starting in 2023, this mechanism imposes a tariff on the carbon emissions of imported goods, aligning their carbon costs with those produced within the EU. By doing so, the CBAM addresses the issue of companies relocating to regions with less stringent climate regulations and ensures that imported products bear the same carbon costs as those made in the EU. Importers will need to purchase CBAM certificates, priced based on the weekly average auction costs of ETS emission allowances, to cover the CO2 emissions of their goods.

European Emission Trade System 2

From 2027, a new separate ETS (ETS2) will cover and address the CO2 emissions from fuel combustion in buildings, road transport and additional sectors (mainly small industry not covered by the existing EU ETS). Under the ETS2, fossil fuel suppliers will purchase allowances from auctions and surrender them at the end of each year, equivalent to the emissions from the fuel they sell. Emissions across these sectors will be capped and required to decrease annually.

---

27. https://www.era-comm.eu/Introduction_EU_Environmental_Law/EN/module_2/module_2_11.html#:~:text=The%20polluter%20pays%20principle%20(PPP,social%20cost%20of%20their%20actions
28. According to the European Commission, Carbon Leakage "refers to the situation that may occur if, for reasons of costs related to climate policies, businesses were to transfer production to other countries with laxer emission constraints" - https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/free-allocation/carbon-leakage_en

This will encourage improvements in energy efficiency for houses and offices and incentivize the switch to low-emission transport. However, to facilitate these changes, citizens and businesses will need support to adopt green alternatives. Therefore, EU countries will invest part of their revenue from the new ETS in climate and energy transition projects, promoting a green transition for all. Central to these investments is the Social Climate Fund.

Social Climate Fund

The Social Climate Fund is dedicated to supporting the most vulnerable groups, namely households, micro-enterprises and transport users specially affected by the introduction of the ETS2. Moreover, the fund should particularly target households that are grappling with energy or transport poverty, ensuring that no one is left behind in the green transition process.

To fulfil this objective, the Fund may be employed to finance structural measures and investments in energy efficiency, renovation of buildings, clean heating and cooling systems, and the integration of renewable energy sources, as well as low-emission mobility solutions. Furthermore, Member States will have the discretion to allocate a portion of the resources to temporary direct income support.

All these measures and investments must be compiled into national Social Climate Plans, developed through public consultations. Member States are mandated to submit these plans to the European Commission by June 2025. The Commission will distribute payments to Member States contingent upon the successful attainment of the milestones and targets delineated in the plans.

To finance these initiatives and investments aimed at supporting the most vulnerable groups, the Social Climate Fund will consolidate revenues from the auctioning of allowances under the ETS2, along with allowances from the existing EU ETS. The SCF provisions establish a maximum of 65 billion Euros and that Member-States will have to support 25% of the cost of their plans.

Just Transition Mechanism

The Just Transition Mechanism (JTM) is a crucial tool to address the social and economic impacts of the transition by focusing on the regions, industries, and workers facing the greatest challenges.[29] The mechanism operates through three pillars:

- **Just Transition Fund:** This fund supports the most affected regions by the transition towards climate-neutrality. It finances upskilling and reskilling workers, investing in SMEs and new firms, fostering research and innovation, promoting environmental rehabilitation and clean energy, providing job-search assistance, and transforming existing carbon-intensive installations.[30]

29. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en
30. https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/just-transition-fund_en

- **Just Transition Scheme under the InvestEU programme:** This scheme supports projects in regions with approved just transition plans or those essential for the transition. It includes infrastructure projects that enhance connectivity in these regions.
- **Public Sector Loan Facility:** This instrument aids regions most affected by the green transition, particularly coal and carbon-intensive areas.[31] It supports communities reliant on these industries and funds projects that address the social, economic, and environmental challenges of the transition.[32]

EU Waste Framework Directive

The EU Waste Framework Directive sets the principles and definitions for waste management in the EU, emphasizing the "polluter pays" principle and "extended producer responsibility" to protect health and the environment.[33] It introduces a five-step waste hierarchy: prevention, reuse, recycling, recovery, and disposal as a last resort.

In 2023, the European Commission proposed revisions to increase recycling rates, reduce waste, and improve hazardous waste management. These changes aim to align waste practices with the EU's environmental and climate goals, promoting a sustainable and circular economy.[34] The amendments include stricter recycling and waste reduction targets, measures to prevent waste, and the promotion of secondary raw materials. Accurate data collection and reporting are emphasized to monitor progress and ensure compliance, creating a more efficient waste management system that supports the EU's environmental and economic goals.

Energy performance of buildings directive (EPBD)

The Energy Performance of Buildings Directive (EPBD) sets the framework for improving the energy efficiency of buildings within the EU, aiming for a fully decarbonized building stock by 2050. The directive emphasizes reducing energy consumption and greenhouse gas emissions from buildings, which are significant energy consumers in Europe. The revised directive entered into force in 2024 and introduced several changes:

- **Minimum energy performance standards** for non-residential buildings based on national thresholds to trigger the renovation of buildings with the lowest energy performance. This also includes the possibility of Member States deciding on the penalties to apply in cases of non-compliance (article

31. https://cinea.ec.europa.eu/just-transition-mechanism_en
32. The European Commission, "About the Public Sector Loan Facility (Just Transition Mechanism)", About the Public Sector Loan Facility (Just Transition Mechanism) (europa.eu)
33. Extended Producer Responsibility (EPR) is an environmental policy approach that holds producers accountable for the entire lifecycle of their products. This means that manufacturers are responsible for the collection, recycling, and safe disposal of their products once they are no longer in use. EPR aims to incentivize producers to design more sustainable and easily recyclable products by internalizing the environmental costs associated with waste management. By shifting the responsibility from governments to producers, EPR helps reduce waste, promote recycling, and minimize the environmental impact of products.
34. https://environment.ec.europa.eu/topics/waste-and-recycling/waste-framework-directive_en

9+ article 34).

- **Enhanced standard for new buildings to be zero-emission** and the calculation of whole life-cycle carbon for new buildings.
- **National Building Renovation Plans** - to set out the national strategy to decarbonise the building stock and how to address remaining barriers, such as financing, training and attracting more skilled workers. The first draft of the plans shall be submitted by December 2025.
- Increased reliability, quality, and digitalisation of **Energy Performance Certificates** with energy performance classes to be based on common criteria.
- Introduction of **building renovation passports** to guide building owners in their staged and deep energy renovations.
- **One-stop-shops for the energy renovations of buildings** for homeowners, small and medium-sized enterprises, and other stakeholders.

Support to people and regions affected by climate events

The EU has launched the EU strategy on adaptation to climate change which is the plan to address the unavoidable effects of climate change and achieve climate resilience by 2050. It has four main objectives: to enhance adaptation intelligence, speed, and systemic integration, and to strengthen global cooperation in addressing climate change impacts. [35]

Moreover, responding to the increasing frequency of extreme weather events, causing widespread damage to communities, the Commission has outlined how the EU can proactively address these climate risks and enhance climate resilience, stepping up support for Member States and affected individuals.[36]

Solidarity in disaster response is present with the EU Solidarity Fund providing €2.1 billion to 13 Member States since 2019 for climate disaster recovery. Through NextGenerationEU, the EU also finances national projects aimed at mitigating climate change.[37] The EU Civil Protection Mechanism aids countries in Europe and beyond during climate-related emergencies.[38]

Finally, in response to the extreme climate events of 2024, the EU proposes augmenting resources to support affected areas by utilizing cohesion policy funds. The RESTORE proposal, which includes amendments to the ERDF/Cohesion Fund Regulation and the ESF+ Regulation for 2021-2027, aims to alleviate financial burdens on local, regional, and national budgets, provide immediate assistance to affected individuals, and mitigate territorial disparities.

---

35. The European Commission, "EU Adaptation Strategy" EU Adaptation Strategy (europa.eu)
36. https://ec.europa.eu/commission/presscorner/detail/en/ip_24_1385
37. https://ec.europa.eu/regional_policy/funding/solidarity-fund_en
38. https://civil-protection-humanitarian-aid.ec.europa.eu/what/civil-protection/eu-civil-protection-mechanism_en

Further Green Deal measures:

- **The European Industrial Strategy** outlines the EU's long-term vision for industrial policy. It aims to strengthen the resilience of the single market, address the EU's strategic dependencies, and accelerate green and digital transitions.[39]
- **The Green Deal Industrial Plan** aims to scale up manufacturing capacity for net-zero technologies and products to meet Europe's climate targets.
- **The Critical Raw Materials Act** ensures the EU has a secure, diversified, affordable, and sustainable supply of critical raw materials, while increasing domestic capacities.
- **The Net-Zero Industry Act** boosts the manufacturing of net-zero technologies in the EU, enhancing their resilience and competitiveness.
- **The Clean Industrial Deal** was announced by the President of the European Commission to be launched in the beginning of the 2024-2029 mandate.[40]
- **EU biodiversity strategy for 2030** - comprehensive long-term plan to protect the environment and restore ecosystems. It aims to restore Europe's biodiversity by 2030 with specific measures and commitments. After the COVID-19 pandemic, the strategy also seeks to strengthen our societies' resilience to future challenges, including climate change, wildfires, food shortages, and disease outbreaks.[41]
- **Farm to fork strategy-** aims to make food systems fair, healthy, and environmentally friendly. It aims to achieve a neutral or positive environmental impact, help with climate change efforts, reverse biodiversity loss, ensure everyone has access to safe, nutritious, and sustainable food, keep food affordable while supporting fair economic returns, competitiveness, and fair trade.
- **Circular economy action plan-** The EU's Circular Economy action plan includes initiatives throughout the whole life cycle of products. It focuses on product design, promotes circular economy practices, supports sustainable consumption, and aims to prevent waste and extend the use of resources in the EU economy. [42]

---

39. The Council of the European Union, "EU Industrial Policy", EU industrial policy - Consilium (europa.eu)
40. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan_en
41. The European Commission, "Biodiversity strategy for 2030" Biodiversity strategy for 2030 (europa.eu)
42. The European Commission, "Circular economy action plan", Circular economy action plan (europa.eu)

EUROPEAN SUSTAINABLE FINANCE FRAMEWORK

Sustainable finance refers to the process of considering environmental, social, and governance (ESG) factors when making investment decisions in the financial sector. This approach promotes long-term investments in sustainable economic activities and projects:

- **Environmental factors** include climate change mitigation, adaptation, biodiversity preservation, pollution prevention, and the circular economy.
- **Social factors** address issues like inequality, inclusiveness, labor relations, investment in people and communities, and human rights.
- **Governance** involves the management structures, employee relations, and executive compensation of institutions, ensuring that social and environmental considerations are included in decision-making processes.

EU Taxonomy Regulation

The **EU Taxonomy Regulation** is a classification system that helps identify which economic activities are environmentally sustainable.[43] The system was created to provide clarity and certainty for investors and decision-makers and bases itself on six environmental objectives: Climate change mitigation, climate change adaption, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

For an economic activity to be considered sustainable, it must comply with four components:

- The investment must make a significant contribution to achieving one or more of the EU's stated environmental objectives: (Article 9 of the Taxonomy Regulation).
- The investment must do no significant harm to any of the 6 objectives to which is not aligned with (Article 17 of the Taxonomy Regulation).
- The investment must comply with minimum ESG safeguards (Article 18 of the Taxonomy Regulation).
- The investment must comply with technical screening criteria (Articles 10-15 and 19 of the Taxonomy Regulation).

43. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en#legislation

European Green Bonds Regulation

The European Green Bonds Regulation created the European Green Bond Standard (EUGBS), a voluntary standard for green bonds.[44] It was designed to help scale up and enhance the environmental ambitions of the green bond market. This standard aligns with EU taxonomy, considering that the projects financed by these bonds must meet the criteria established in the taxonomy and therefore be considered environmentally sustainable.

The relationship between EU taxonomy and the EUGBS intends to help investors identify and support sustainable projects and reduce the risk of greenwashing.

Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD) came into effect in 2023. It updated and strengthened the rules for companies to report on social and environmental information. The new rules ensure investors and stakeholders have the necessary information to assess companies' impacts and financial risks related to sustainability.

The Directive is applicable to:

- Large companies (Those meeting at least two of the following criteria: more than 250 employees, €40 million in net turnover, or €20 million in total assets).
- Listed small and medium-sized enterprises listed on EU regulated markets.
- Non-EU companies: Those generating over €150 million in the EU market and having at least one subsidiary or branch in the EU.
- In this context, companies within the Directive's criteria must follow the European Sustainability Reporting Standards (ESRS). The first reports following this new set of rules will be published in 2025, related to the 2024 financial year.[45]

Regulation on the transparency and integrity of Environmental, Social and Governance rating activities

ESG ratings assess a company's and other actors' performance in the Environmental, Social, and Governance areas. These ratings help investors understand how well a company is managing risks and opportunities related to these factors, which can impact long-term financial performance.
The Regulation on the transparency and integrity of Environmental, Social, and Governance (ESG) rating activities, adopted by the European Parliament and Council in November 2024, aims to enhance

44. Green Bonds are a type of fixed-income instrument that are specifically earmarked to fund environmentally friendly and climate-related projects-https://www.consilium.europa.eu/en/infographics/european-green-bonds/
45. https://www.consilium.europa.eu/en/infographics/european-green-bonds/

the transparency, integrity, and reliability of ESG ratings. It introduces common standards for ESG rating providers, ensuring that their methodologies, data sources, and operations are transparent and consistent. This regulation is designed to improve investor confidence and the overall quality of ESG ratings, supporting the sustainable finance market.