

TranspArEEnS: ESG Ratings, the SMEs Perspective

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Introduction

CONTEXT

- ☐ Achieving the **EU2030 targets requires** *massive investments*
- □ Access finance for Energy Efficiency (EE) investments is difficult and investors have insufficient data and difficulties in measuring the impact on their portfolios both in terms of performances and sustainability
- Lack of transparent and standardized firms' ESG disclosure (especially for SMEs and EE)
- ☐ Poor disclosure and standardization could also give rise to greenwashing phenomena

TranspArEEns Objectives

TranspArEEnS aims to enhance standardized disclosure of EE and ESG information at firm level, to foster access to long term financing (e.g. via securitization) and better risk assessment, while taming the risk of greenwashing

TranspArEEnS complements the outputs of three previous related EU-funded projects:
EeMAP, EeDaPP and EeMMIP



Introduction

REGULATORY GOAL

European Green Deal

..with the objectives set by EU 2030 will be the drivers of the process towards sustainability GLOBAL SCENARIO

PROJECT

APPROACH

TranspArEEnS

Was born in this context to address these barriers by mainstreaming a quali-quantitative framework for the collection of firms' ESG information



Standardized Framework

Was developed in order to fill the existing lack of EE and ESG information for non-listed SMEs

ESG Information

The lack of standardized disclosure of EE investments limits firms' access to EE financing



Project structure

wp6 Project Management

EU, International Policy

- NGFS data gap workgroup
- EU Financial Regulation (Taxonomy, Basel III, Solvency II)
- Financing Green Deal-aligned COVID-19 recovery
- Research, business and policy oriented dissemination
- Training about disclosure and greenwashing

Wp5 Dissemination and Capacity Building

wp2 Standardized Survey

- Design of the questionnaire
- Implementation on italian SMEs' Market
- Analysis of results

wp3 Standardized Rating

 Rating that focuses on the EE dimensions within the ESG ratings and will extend it at the SMEs level

wp4 EE-securitization

 Develop and test financial structures of assets to support the issuance of debt securities for EE based financial products (e.g. Covered Bond)

wp1 Large scale Database

• develop a DB at firm-level that covers a large number of entities



The Consortium

- ☐ Ca' Foscari University of Venice Italy (lead partner)
- ☐ CRIF Spa Italy
- ☐ Covered Bond & Mortgage Council Belgium
- MODEFINANCE Srl Italy
- ☐ Leibniz Institute for Financial Research SAFE Germany







This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement N. 101033869

PARTNERS













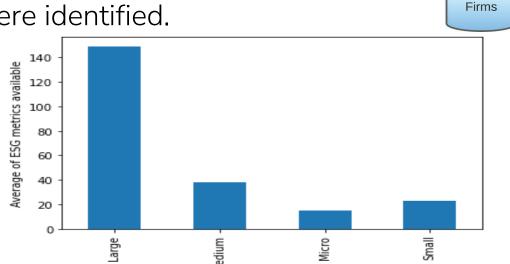
The listed ESG database

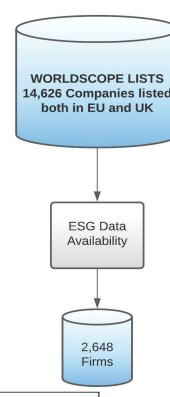
TranspArEEnS has developed a database containing ESG information for all listed companies in Europe and Great Britain, using various data sources and ESG agencies.

ESG data was mainly collected from (i) Bloomberg, (ii) Refinitiv, (iii) MSCI, (iv) NGR Metrics and (v) CDP - Carbon Disclosure Project.

Out of a sample of 14,626, only 2,648 companies provide sufficient ESG information. In total, 945 ESG metrics were identified.

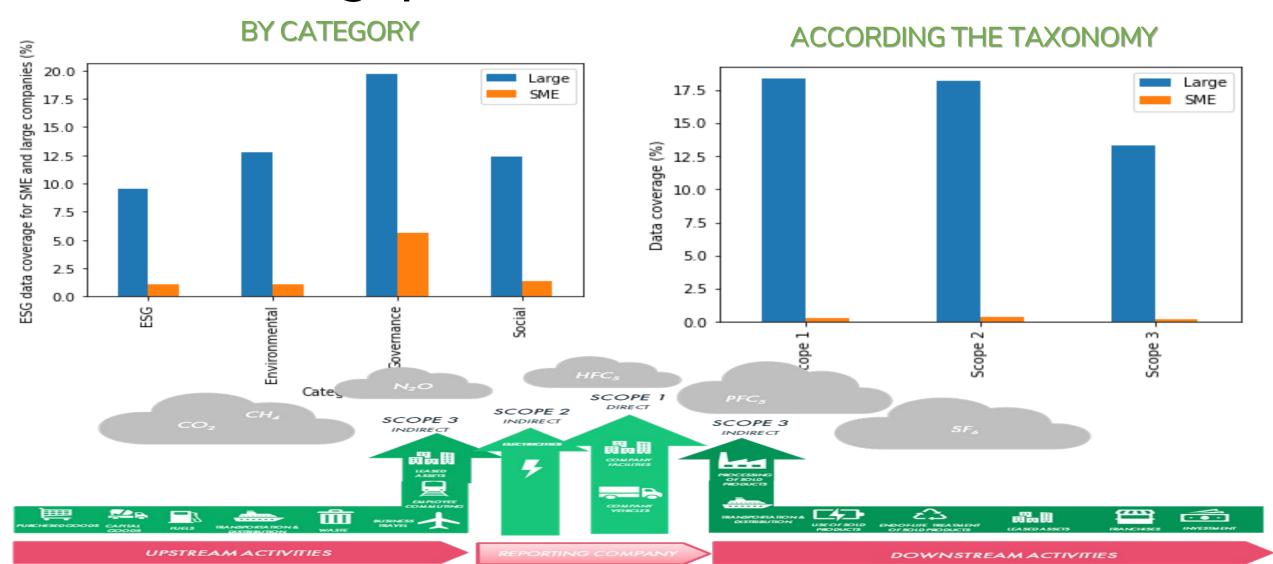
There is an important data gap for SMEs





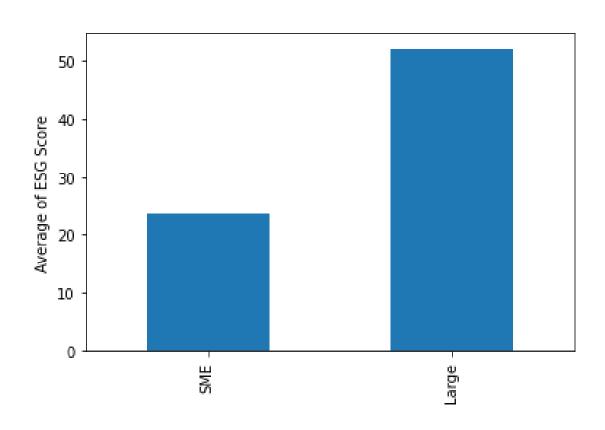


The data gap for SMEs





Ratings' implications



Analyzing the ESG ratings provided by Refinitiv, on average SMEs have an ESG score of 23 against an average of 52 for large companies.

This difference can be explained by the fact that ESG reporting can be costly. Failure to report certain ESG metrics results in a downgrade of the ESG rating.

Large companies, having more resources, are therefore in an advantageous position.



- ✓ The **scope** is the collection of information **for the SME segment**, whose definition respects the *EU recommendation* 2003/361
- ✓ To obtain evidence robust, interpretable and coherent with the objectives of the TranspArEEnS project, the perimeter has been further restricted to small and mediumsized enterprises
- ✓ With the aim of collecting information on the EE-ESG profiles of companies with as much detail as possible, in addition to a generic questionnaire to be administered to all the SMEs on the CRIF radar, further specific questionnaires have been prepared for specific sectors
- ✓ The target economic sectors on which to focus the ad-hoc questionnaires are identified on the basis of specific drivers



Company category	Staff headcount	Turnover	Balance sheet total	Scope
Medium	< 250	≤€50 M	≤ € 43 M	IN 🎻
Small	< 50	≤ € 10 M	≤€ 10 M	IN 🎷
Micro	< 10	≤ € 2 M	≤ € 2 M	IN 🎷

— or —

DRIVERS used for the choice of economic sectors to which the ad-hoc questionnaires should be administered



EXPERT JUDGEMENT



NATIONAL RECOVERY AND RESILIENCE PLAN (NRRP)



MARKET ANALYSIS



TAXONOMY

¹ Given the DQ problems related to staffing information and leveraging on the possibility that EU recommendations give the financial industry to consider only turnover for the SME definition, it is proposed to use only Turnover values < € 50 M as a segmentation driver



Leveraging consortium's in-depth knowledge in relation to the Italian SME market and the respective expectations in terms of ESG impacts, it is considered that the most appropriate target economic sectors for ad hoc questionnaires are Construction and Manufacturing activities¹ in the first step. The overall questionnaire and platform is constantly evolving to consider a complete range of sectors

The sectors identified are firmly present in the Italian SME market
They make an important

They make an important contribution to national production and employment levels:

+ 150k enterprises + € 215 billion production

TERRITORIAL PRESENCE



ESG IMPACTS

Aiming for increasingly ESG-compliant profiles among the identified sectors would make a huge contribution to the global goals to be achieved by 2030 (e.g. construction of energy-efficient buildings or the use of less polluting machines that can be used in the manufacturing industry)

In support of this, the identified sectors will benefit from approx.

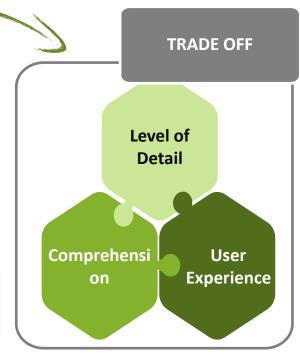
44% of the NRRP resources

CD

The sectors indicated should be favourable to contribute to the cause of ESG-specific information collection as they are strongly incentivised by national and European initiatives

A higher response rate is therefore expected for these sectors than for others

> RESPONSE RATE



10

¹Production, manufacturing and processing of metals and non-metals



Estimated compilation time: 2/3h

MACRO STRUCTURE



- 1 General questionnaire
- 2 Sectoral questionnaires
- 4 Areas of focus

1 BUSINESS



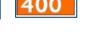
- 3 SOCIAL
- 4 GOVERNANCE











In compliance with the main international standards











NATIONAL RECOVERY AND RESILIENCE PLAN (NRRP)



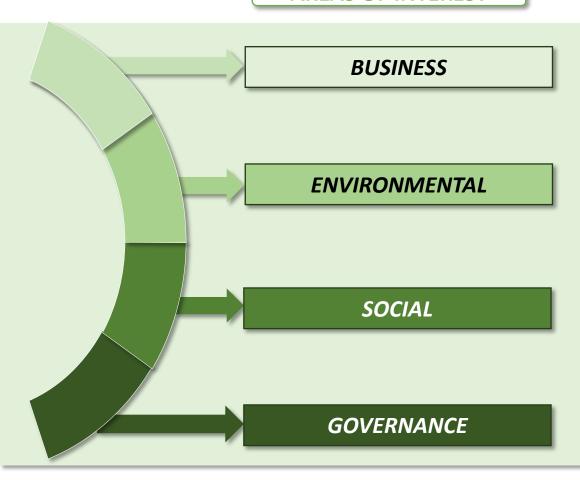


EXPERT JUDGEMENT

TAXONOMY



AREAS OF INTEREST



MAIN TOPICS

- Energy efficiency
- Corporate sustainability strategy
- ESG Risk Management
- Importance of R&D
- Digitalisation of services
- > Labeling and information on products
- Waste, water and energy
- Certifications
- Relationships with the community and stakeholders
- Board' structure and composition
- Innovation
- EU Taxonomy
- Circular Economy
- Workplace health and safety



The Platform

TransparEEns project challenge

Collect EE-ESG information of Italian SMEs



A CRIF global Digital

Platform capable of collecting and managing EE-ESG information to verify the sustainability criteria of clients, partners and suppliers



Database

with ESG info from questionnaire and financial info from CRIF data assets





The Questionnaire administration

- √ ~ 150 questions, between general and sectoral questionnaire, for companies to answer
- √ ~ 70 of these are NOT mandatory
- ✓ + 50 questions are related to EE aspects (about 22%)
- ✓ other thematic areas are covered in order to have an overall assessment of the ESG profile of companies
- ✓ Each question is supported by a FAQ/Help section to help the user

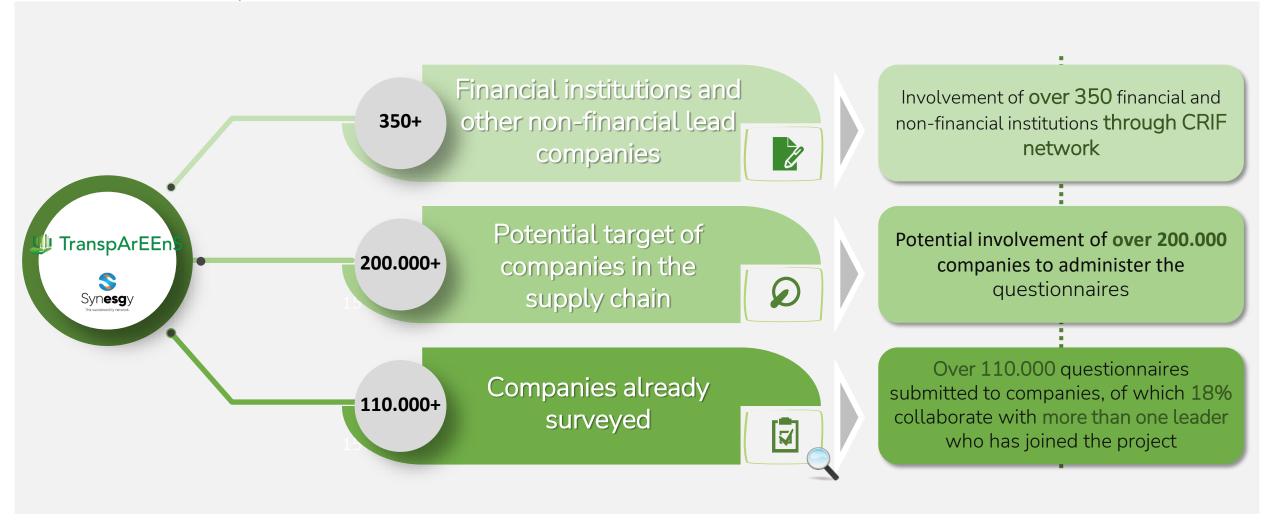
Compliance with project goals

Simplified user experience



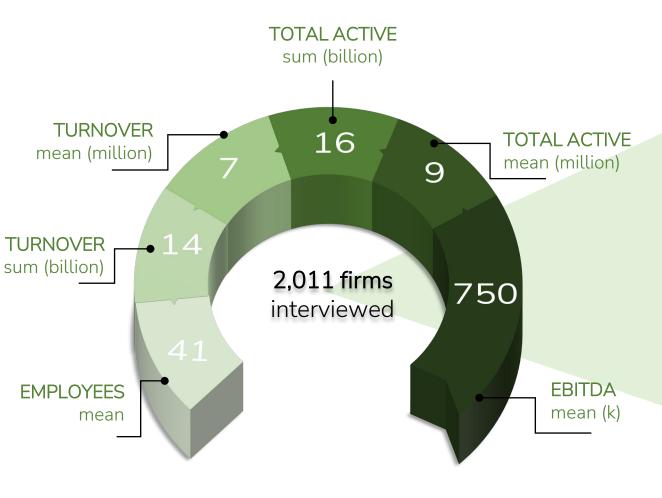


The Questionnaire administration

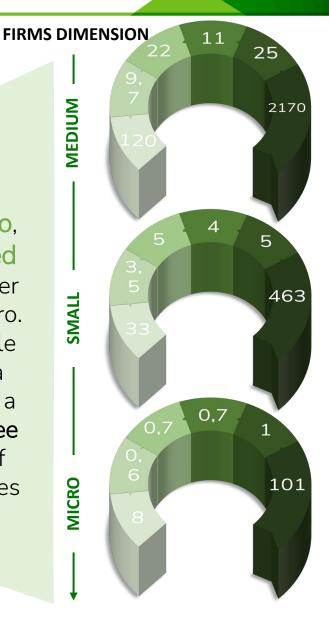




The first vintage sample



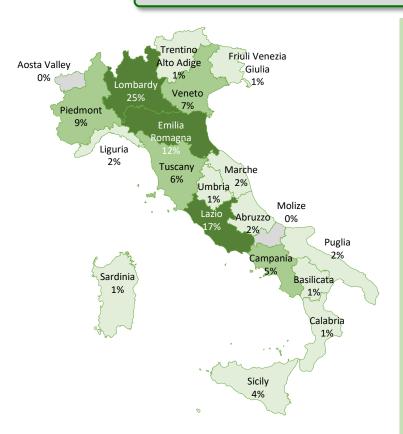
The survey covered micro, small and medium-sized enterprises with a turnover of less than 50 million euro. Medium-sized firms, while representing less than a quarter of the total, have a total turnover almost three times higher than that of micro and small companies





The first vintage sample

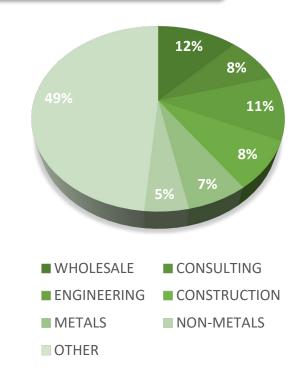
GEOGRAPHICAL DISTRIBUTION



More than 70% of companies are located in five regions in the North and the Center of Italy: the companies in these regions represent approximately 75% of the total turnover. although the **highest** values for the average turnover is observed in two different regions: 11 million euro in Trentino-Alto Adige and over 10 million euro in Friuli-Venezia Giulia

SECTORIAL ANALYSIS

The most represented sectors in the analysis are Wholesale. Consulting and Engineering, but there is also a significant portion of SMEs from Construction, Metals and Non-Metals, which are the sectors identified by WP2 for the administration of sectorial questionnaires. These sectors alone account for *more than 51% of* the SMEs under investigation





Only **20%** of

respondents have a

business **management**

system that integrates

environmental

risks

Business Considerations

FROM STRICT
NECESSITY
TO OPPORTUNITY

Companies have recently started a process of greater awareness, pushed not only by regulations but also by a new attitude towards the matter

58% manage only the risks normatively foreseen

Only 10% of the analyzed firms publish their results in special sustainability reports

BUSINESS

52% of the companies which publish non-financial statement started since 2020



Environmental strategy

ENVIRONMENTAL

ENERGY EFFICIENCY

Starting from 2020, 13% of respondents began investing in energy efficiency measures

INVESTMENTS

The sample examined invested more than 35 million euros in energy efficiency



ENERGY CONSUMPTION

~500k Mwh per year

ENVIRONMENTAL IMPACT

11% have contracts for the supply of electricity from renewable sources

CORPORATE PLANTS

19% firms provided a corporate production plants and 40% of them opted for the photovoltaic system



S-G Dimensions

SOCIAL

MANAGER

The average of woman manager employed is 5 vs 7 for man

ROLES

Women with managerial positions are present in less than half of the companies

PAY GAP

Women earn, on average, 56,000 euro per year vs 68,000 euro for man



GOVERNANCE

AUDIT FIRM

In the 22% of cases there is an audit firm

SUSTAINABILITY MANAGER

Only the 22% of companies have a figure dedicated to sustainability

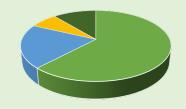
CODE OF ETHICS

In 25% of cases there is a code of ethics that addresses issues related to sustainability

SOCIAL

GOVERNANCE

Female presence in the governing bodies



- less than 33%
- between 33% and 50%
- more than 50%
- Sole Director



Preliminary results

The path to sustainability sets by the European Green Deal is long and challenging just as the targets set by EU2030 are particularly ambitious

During the administration of the survey emerged the widespread difficulty in understanding certain issues and lack of standard information

Companies are beginning to approach sustainability issues and supporting them is essential to define standardised criteria

Helping companies in **producing ESG** information, collecting and analyzing the data is the key for ESG transformation

Tools for data collection and dissemination of ESG culture exist.

Such tools need to constantly evolving as it is the attitude of Italian SMEs in addressing new issues in terms of sustainability



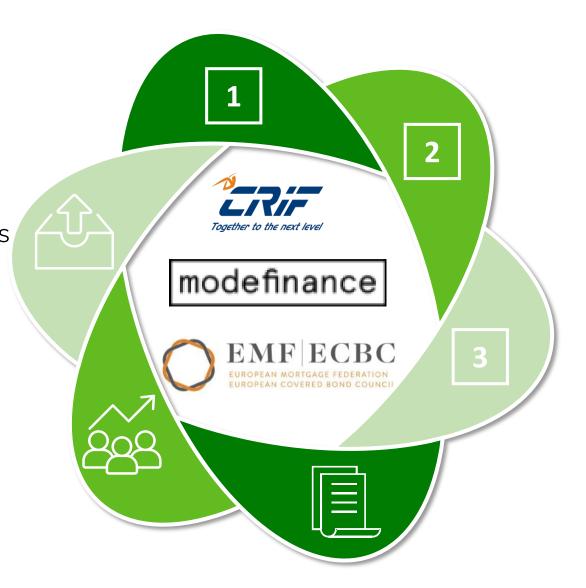


Next steps

1 Consolidate the collection of questionnaires using the network of Finance and Non-Finance companies recently involved – expansion of stakeholders involved to increase the amount of data and deepen the analysis

2 Enhance standardized disclosure of EE and ESG information by defining a standardized EE-ESG rating

Foster access to long term financing (e.g. via securitization) and better risk assessment, while taming the risk of greenwashing



Thank you





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