

European banks financing the sustainable transition for SMEs



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Economic Forum**

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Who we are?



The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about two million people.

A thriving European economy

underpinned by a stable, secure and inclusive financial ecosystem

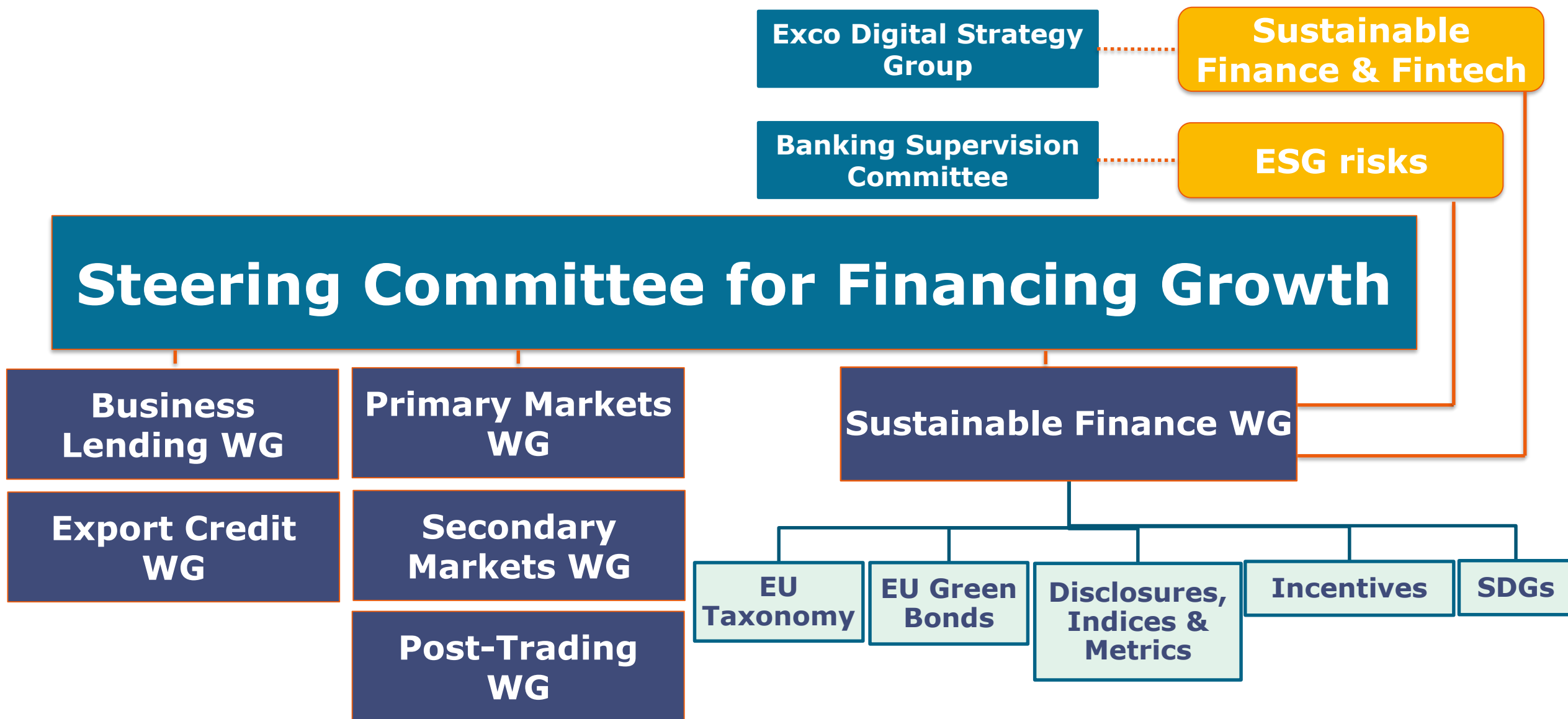
A flourishing society

Where stable and secure financing is available to finance the dreams of citizens, businesses and innovators everywhere

EBF Strategic pillars for 2019



EBF organisation on Financing Growth

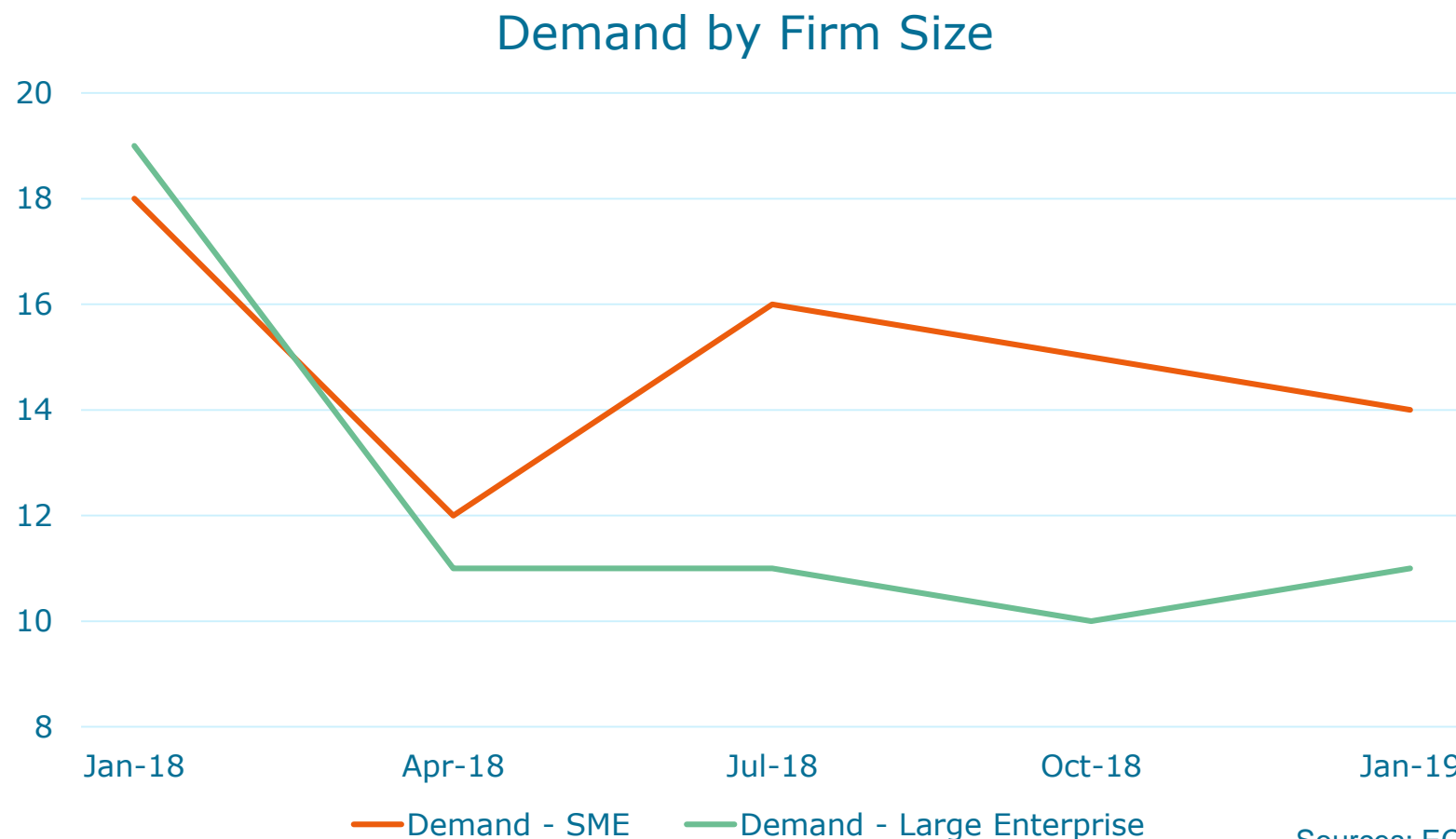
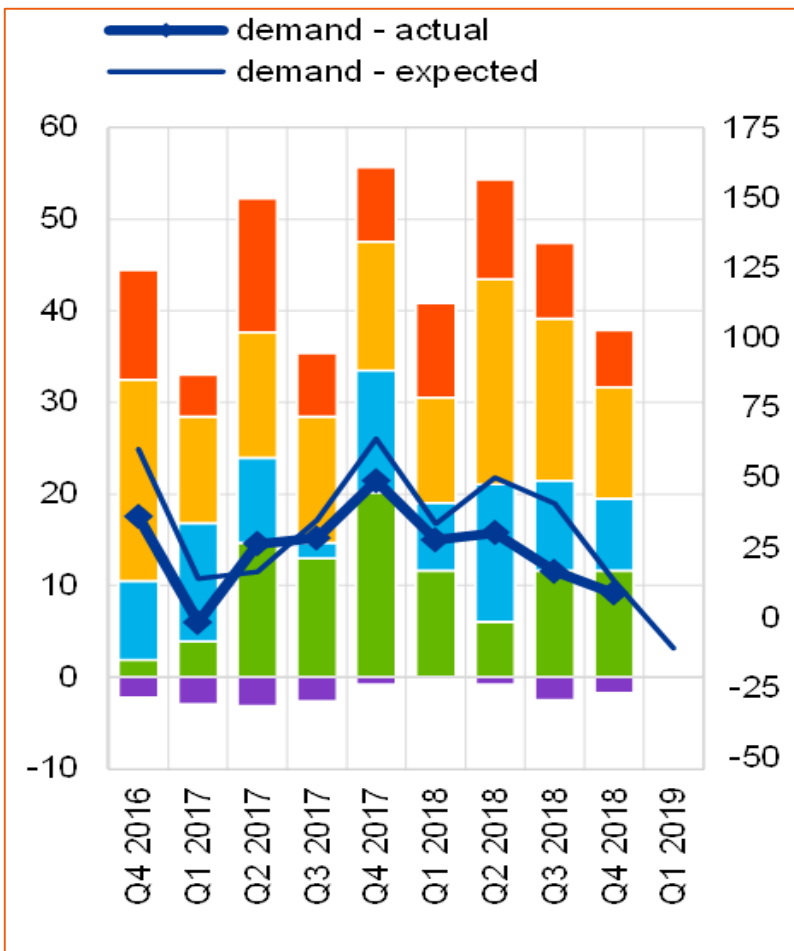




Financing Conditions in Europe

Financing conditions in Europe

In 2017, around 99.8% of all companies in the EU are SMEs (Small and Medium Enterprises) -93% Micro-, and they account for almost two-thirds of total EU employment (66.4%) and around 56.8% of the value added generated by the non-financial business sector.

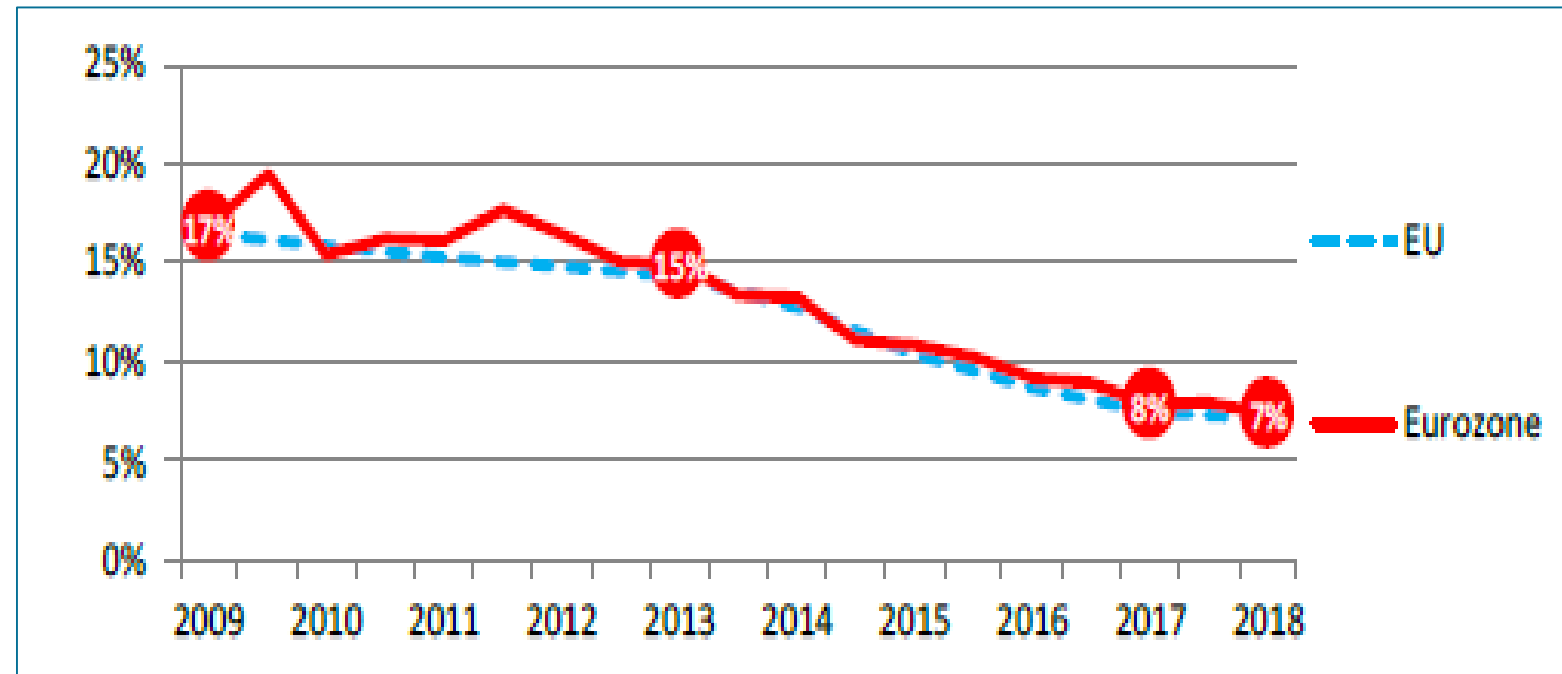
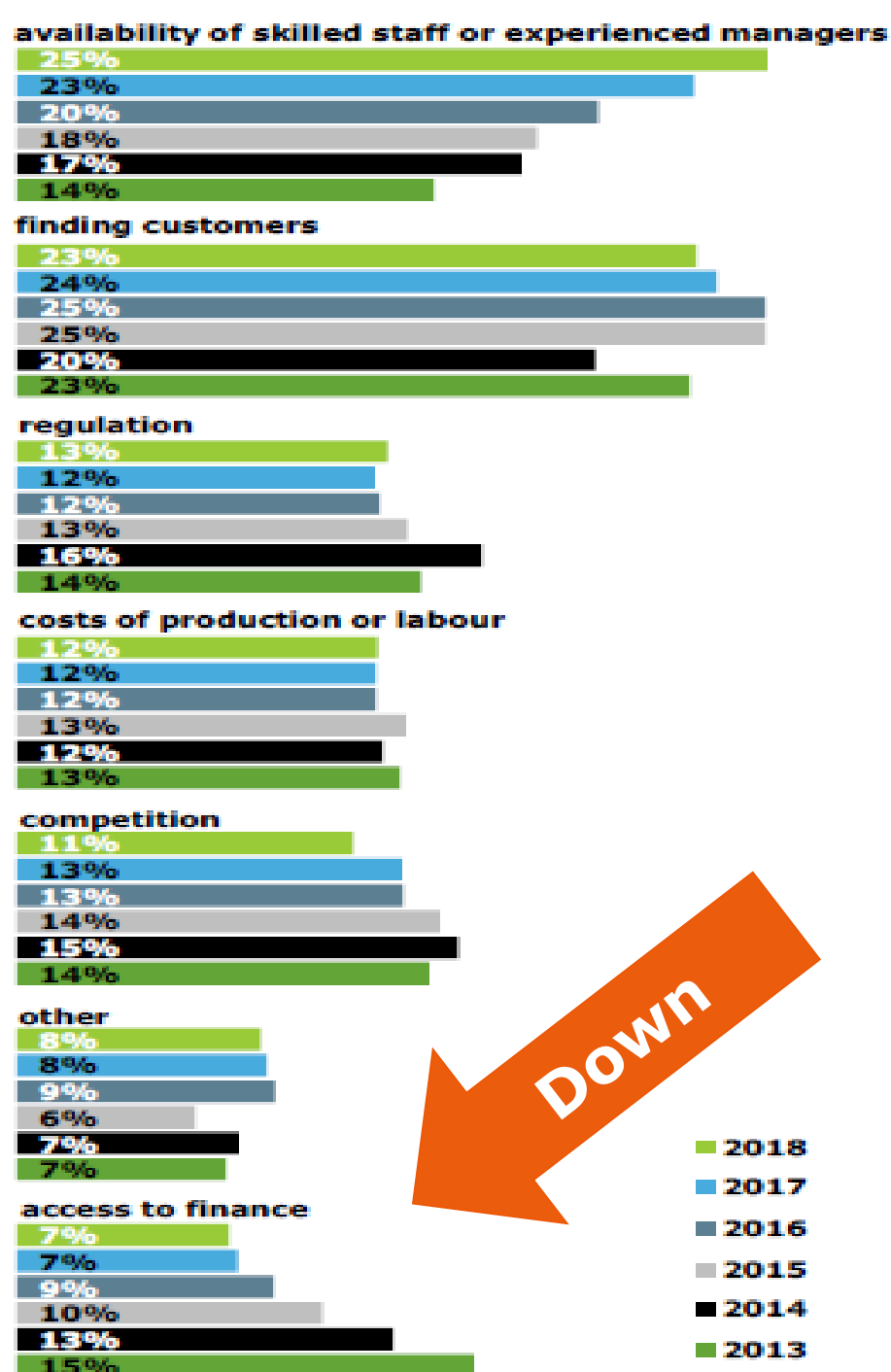


Net demand was higher among SMEs, on average, than among large enterprises.

Sources: ECB
lending survey and
EBF own
calculations

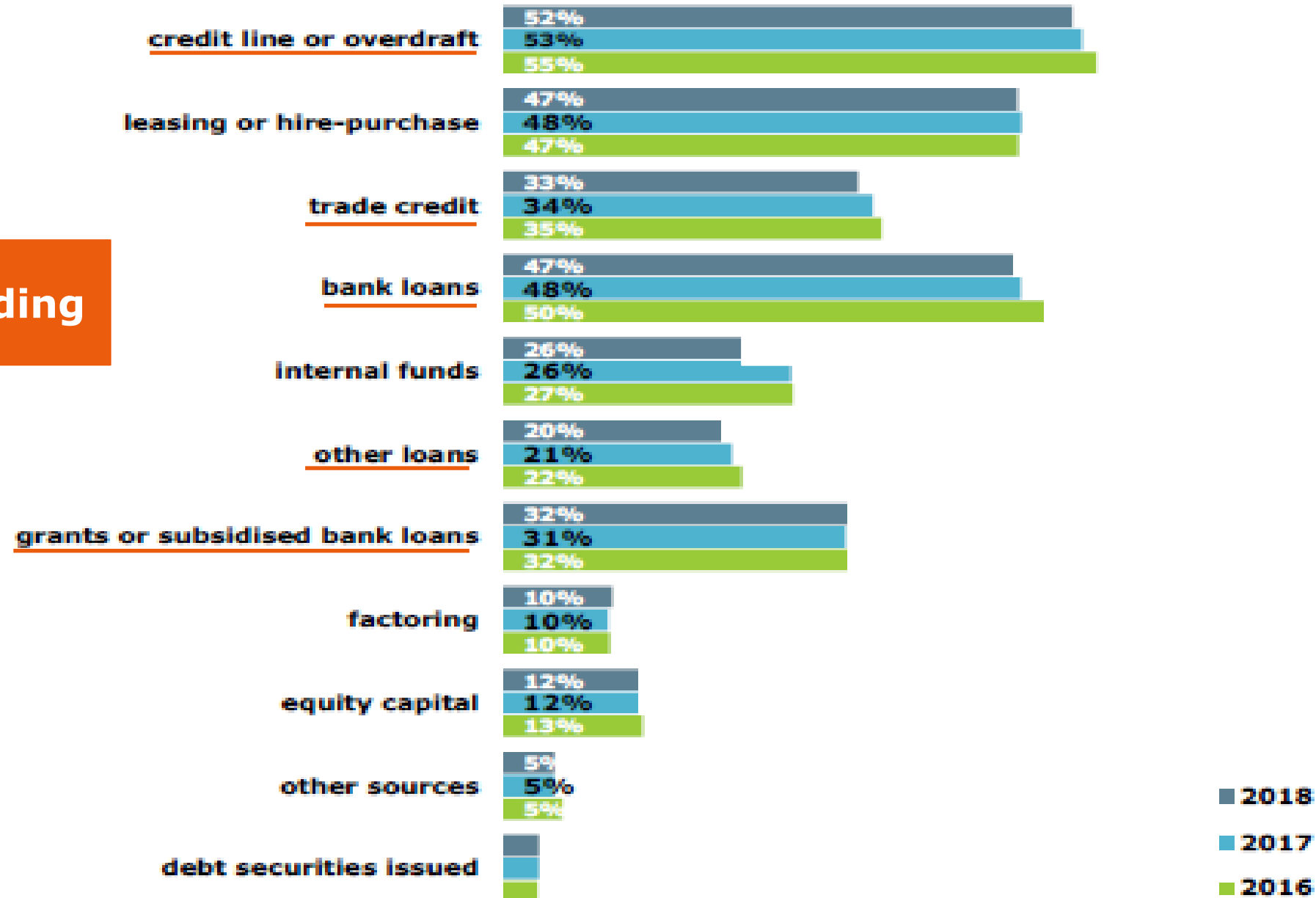
SMEs do not list access to finance as their most pressing concern

Satisfaction with financing is high



Relevance of different types of financing for SMEs in the EU28 in 2016, 2017 and 2018.

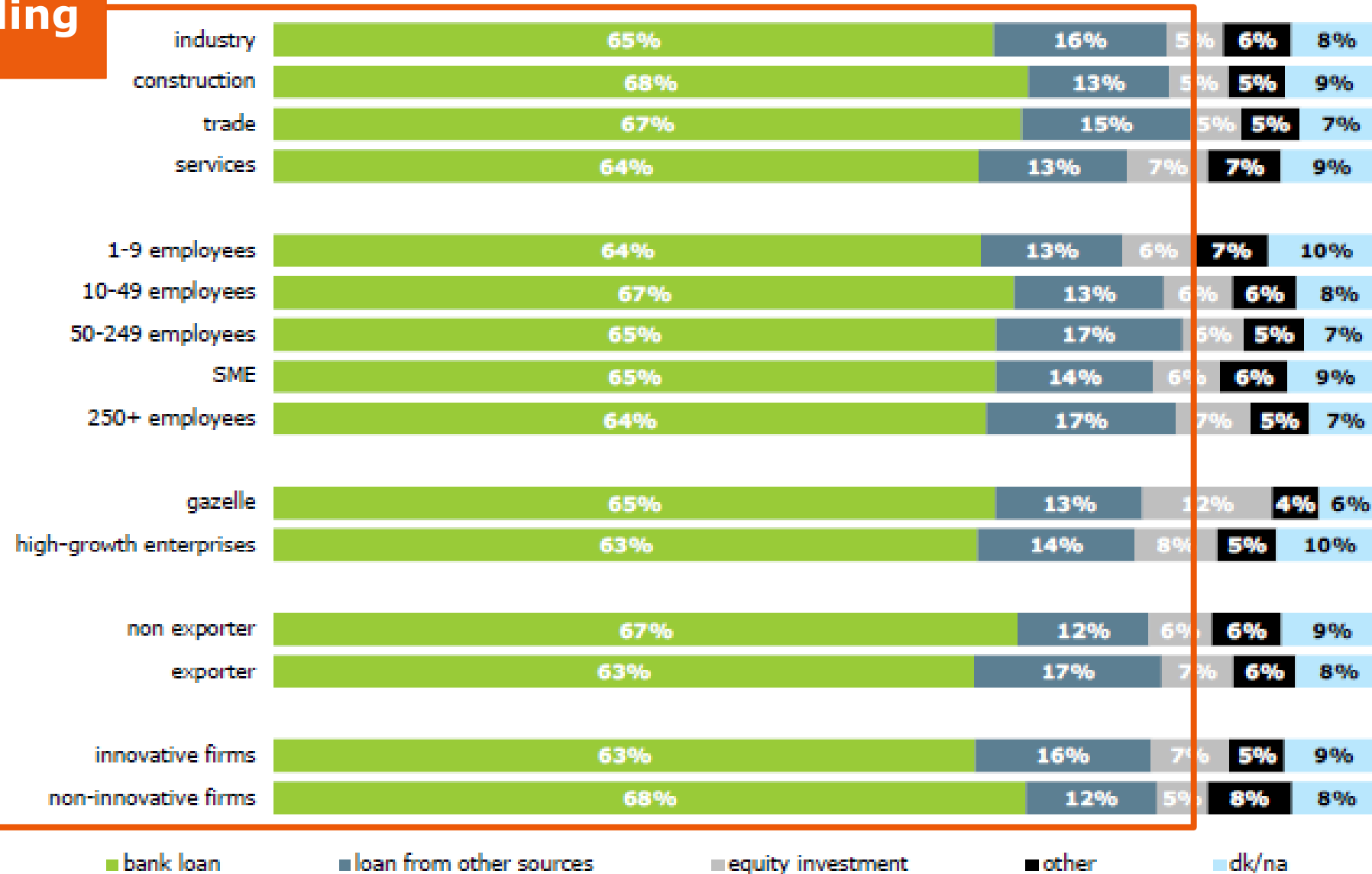
Lending



Financing conditions in Europe

Types of external financing preferred to realise growth ambitions for SMEs in the EU28, by enterprise characteristic.

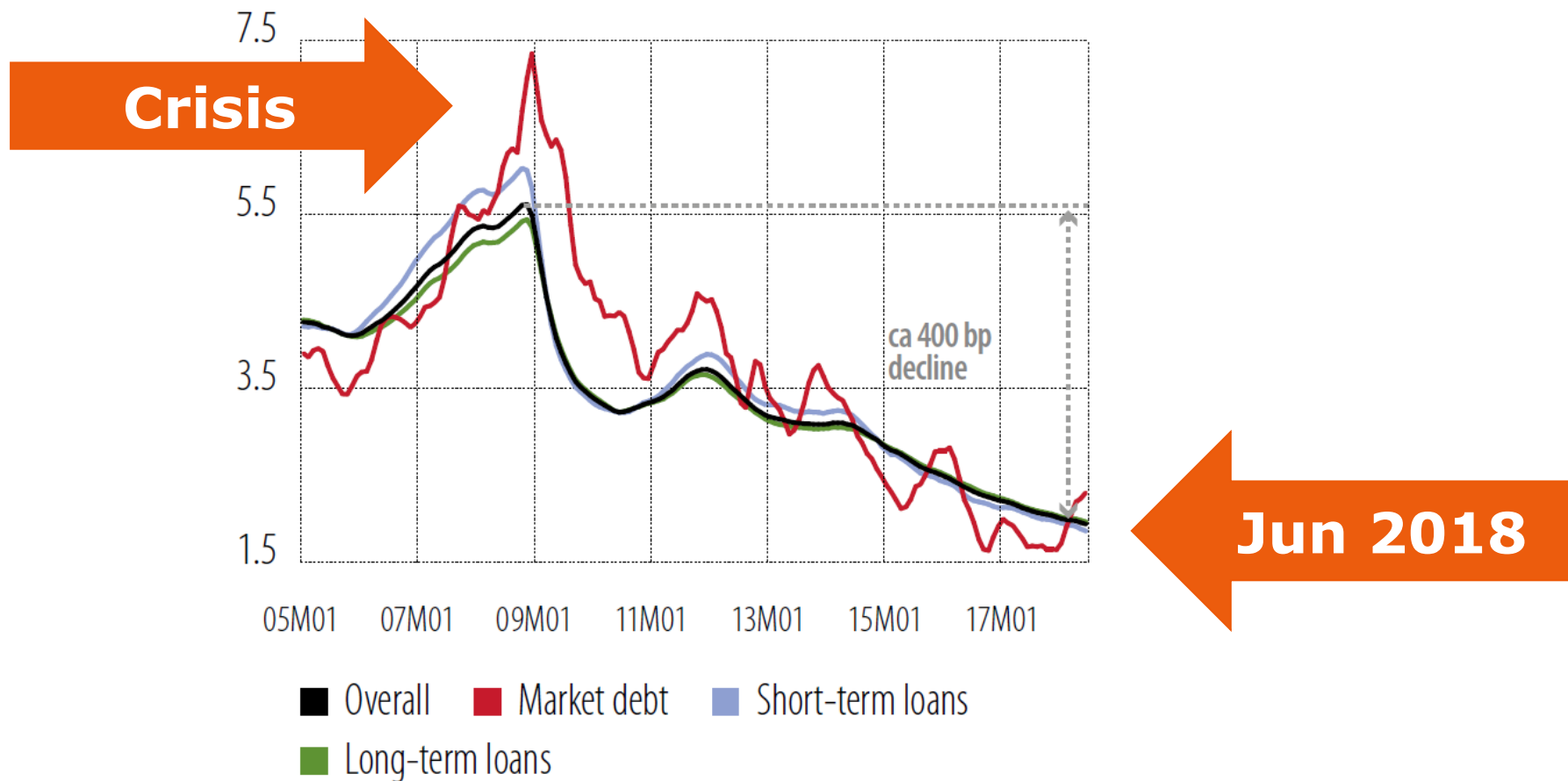
Lending



Source: SAFE Survey 2018

Financing conditions in Europe

Overall cost of external financing (% p.a.)

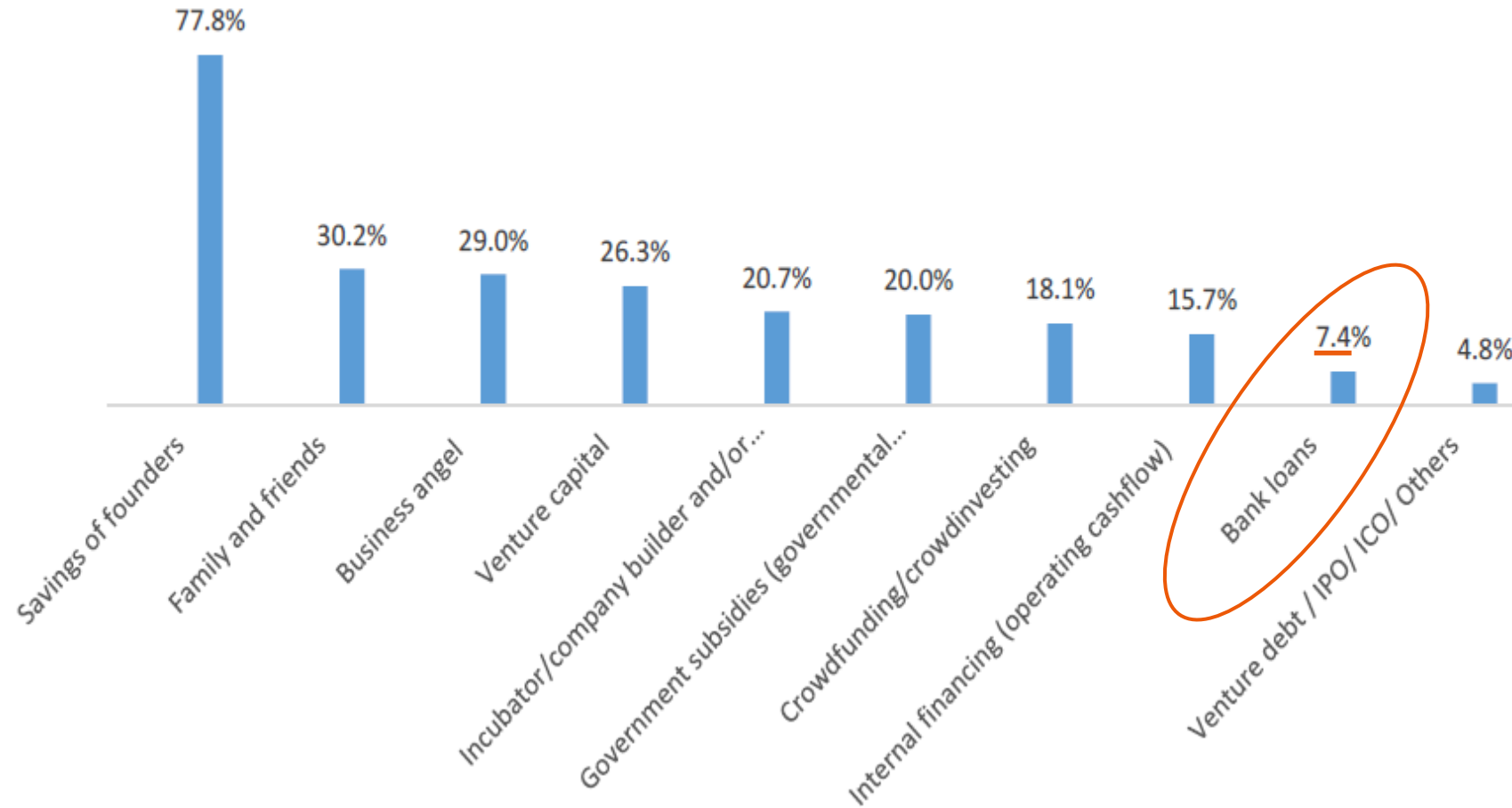


Source: ECON calculations based on ECB.

Note: Data up to June 2018. Three-month moving average.

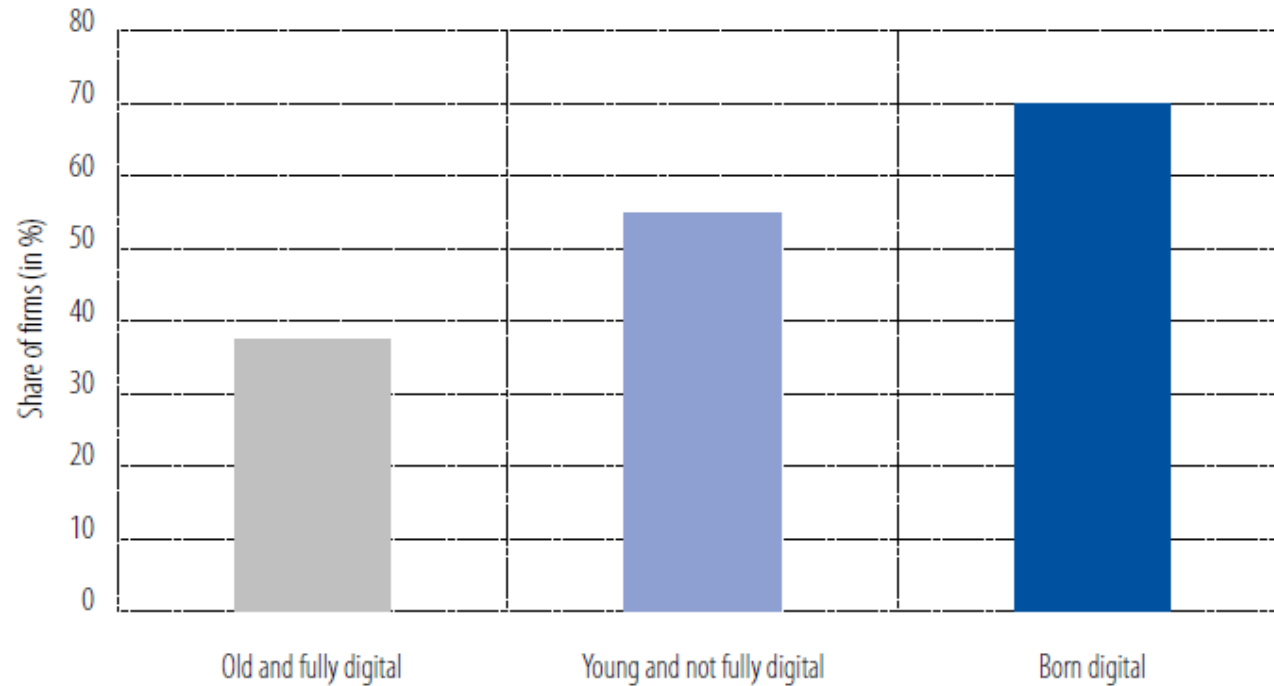
Specificities of Start-up financing

Figure 27: Sources of financing

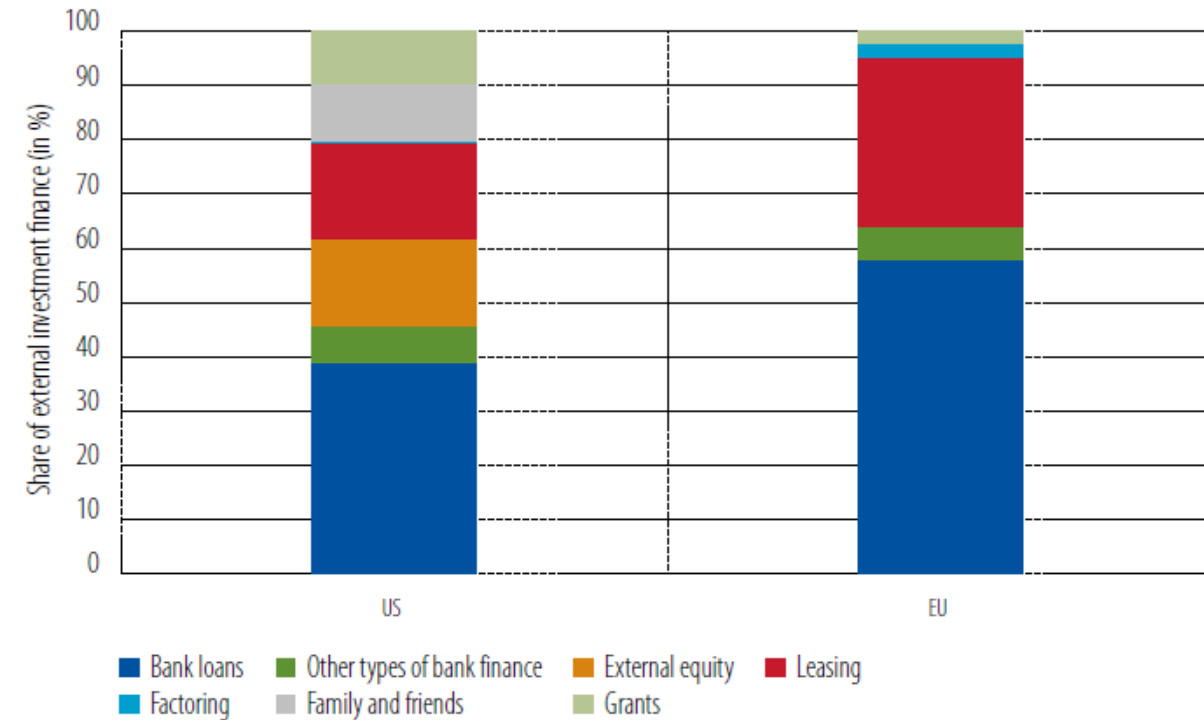


Financing constraints for young innovative companies

Finance as constraints for born digitals



External financing mix among young firms (in %)



Challenges in financing innovation

Main constraints for financing innovative companies:

Companies'
high-risk
profile

Complexity
of the
business
models

Risk
assessment
of
innovation

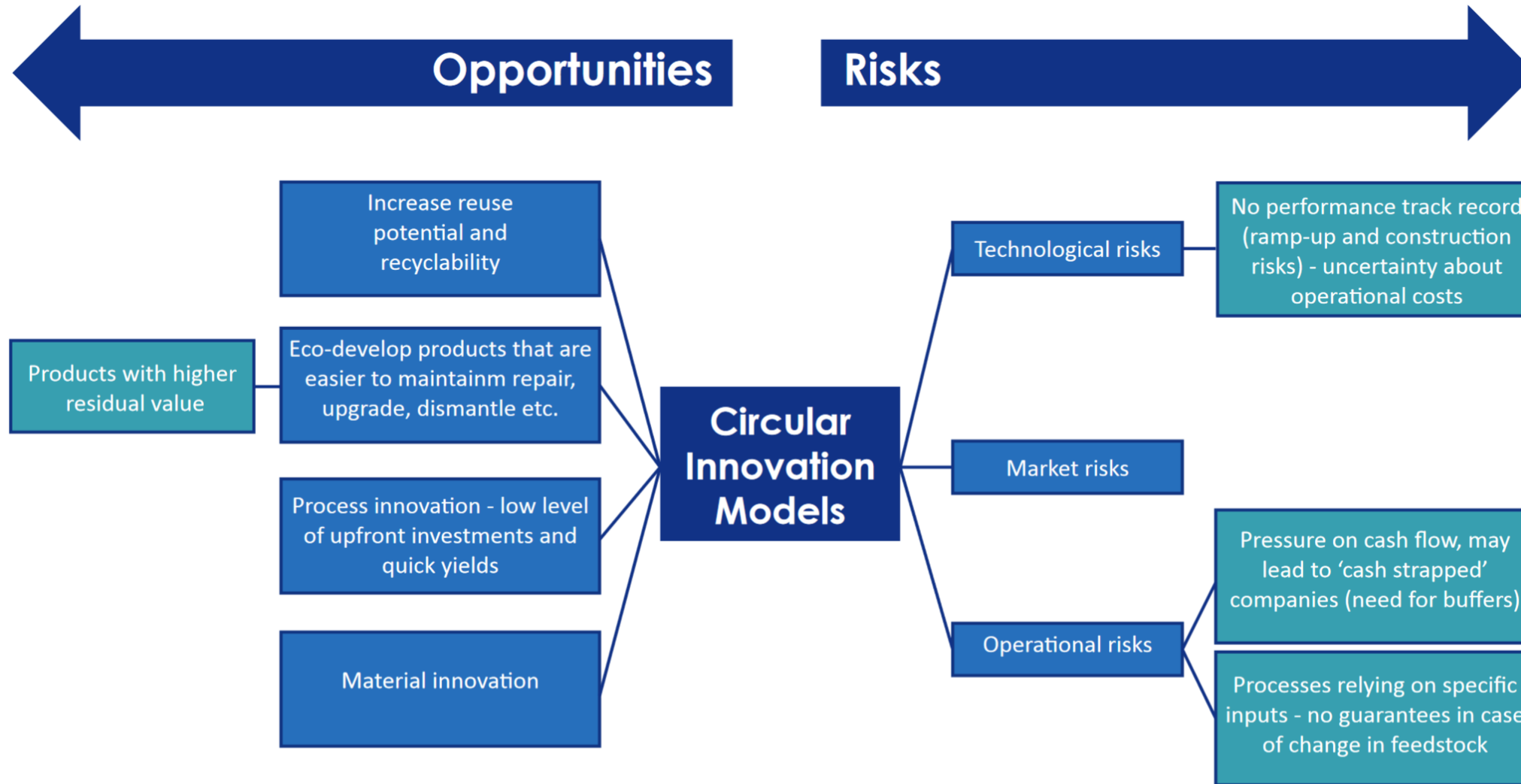
Solutions:

Using
innovative
financial
products

Cooperating
with
alternative
financing
methods

Cooperating
with public
financial
institutions

Financing Sustainable Innovation



Risks are comparable to those faced by financiers when financing innovative business models in general.

Figure 21: Summary of opportunities and risks related to Circular Innovation Models.

Financing innovation and sustainability have a lot in common

- Cross-cutting work on these topics at EBF: **Collaboration**
- Environmental technologies share a double complexity, on top of the issues mentioned above, they need also to have extra proof that the technology itself will have proven carbon reductions, environmental improvement by specific KPIs...

Ongoing process

Uptake of sustainable activities enables customers to have **more experience on how to do it right**

The build up of industry experience generates **datasets that support financial due diligence**

Data availability on performance lifts many obstacles for mainstream banks to provide **finance for these projects**



Sustainable Finance: Challenges, changes and the way forward



"Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders."

Sustainable Finance : A game changer



EBF strategic priority



Transformation of the banking sector

Strategies, business models, risk management, product developments, customer relations...



Opportunity for banks to connect societal and financial goals

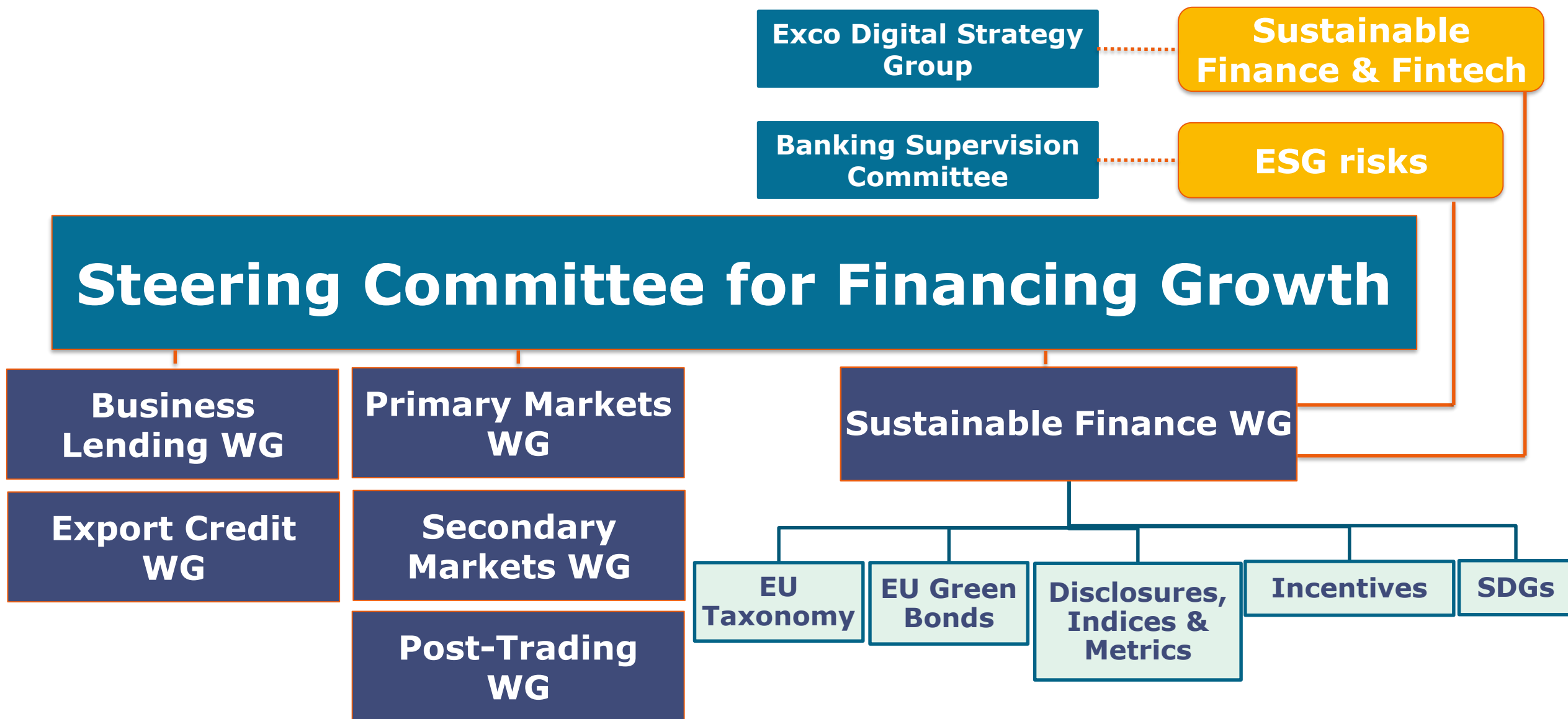
As they finance around 2/3 of the EU economy



Need for a smart regulatory framework

To complement private initiatives and incentivize broad-scale actions

EBF organisation on Financing Growth



Promoting sustainable finance, a strategic priority for EBF

Enabling

Smart legislative framework enabling banks to support their clients in transition.

Encouraging

Review of legislative and non-legislative framework to encourage and reward the shift towards sustainable economy.

4 E strategy

Engaging

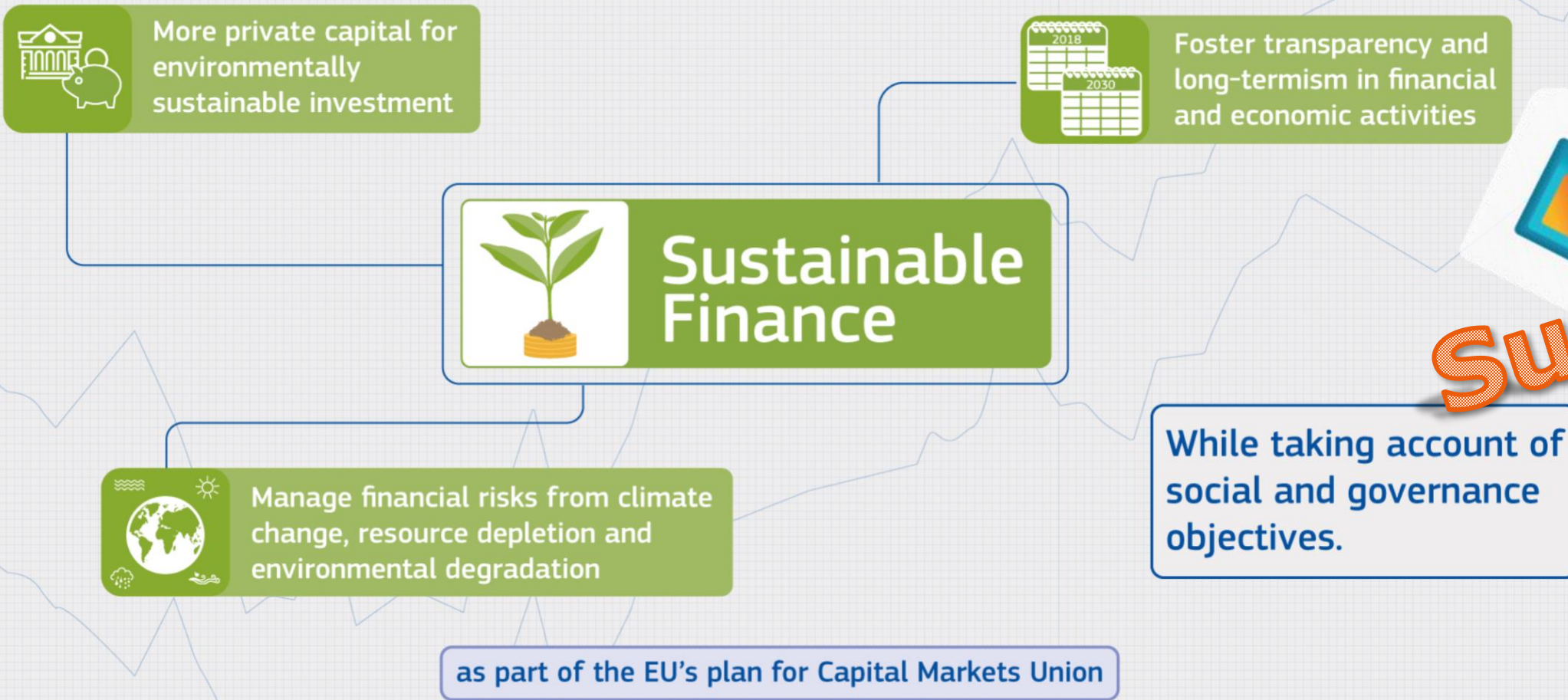
Scale up competences to improve sustainability of bank and market-based financing. Partnering with UN, regulators, businesses etc. Engagement in regulatory initiatives.

Educating

Empowering consumers and engage finance professionals to better understand, measure, integrate, analyse and price sustainability risks. Good practice and capacity building.

European Commission Action Plan action plan on Financing Sustainable Growth – March 2018

EU Objectives for Sustainable Finance



Supports

Taxonomy for environmentally sustainable activities

When is an economic activity considered environmentally sustainable?

Under the Commission's proposals it must:



Contribute substantively to at least one of the six environmental objectives laid out in the proposal



Climate change mitigation



Climate change adaptation



Sustainable use and protection of water and marine resources



Transition to a circular economy, waste prevention and recycling



Pollution prevention and control



Protection of healthy ecosystems

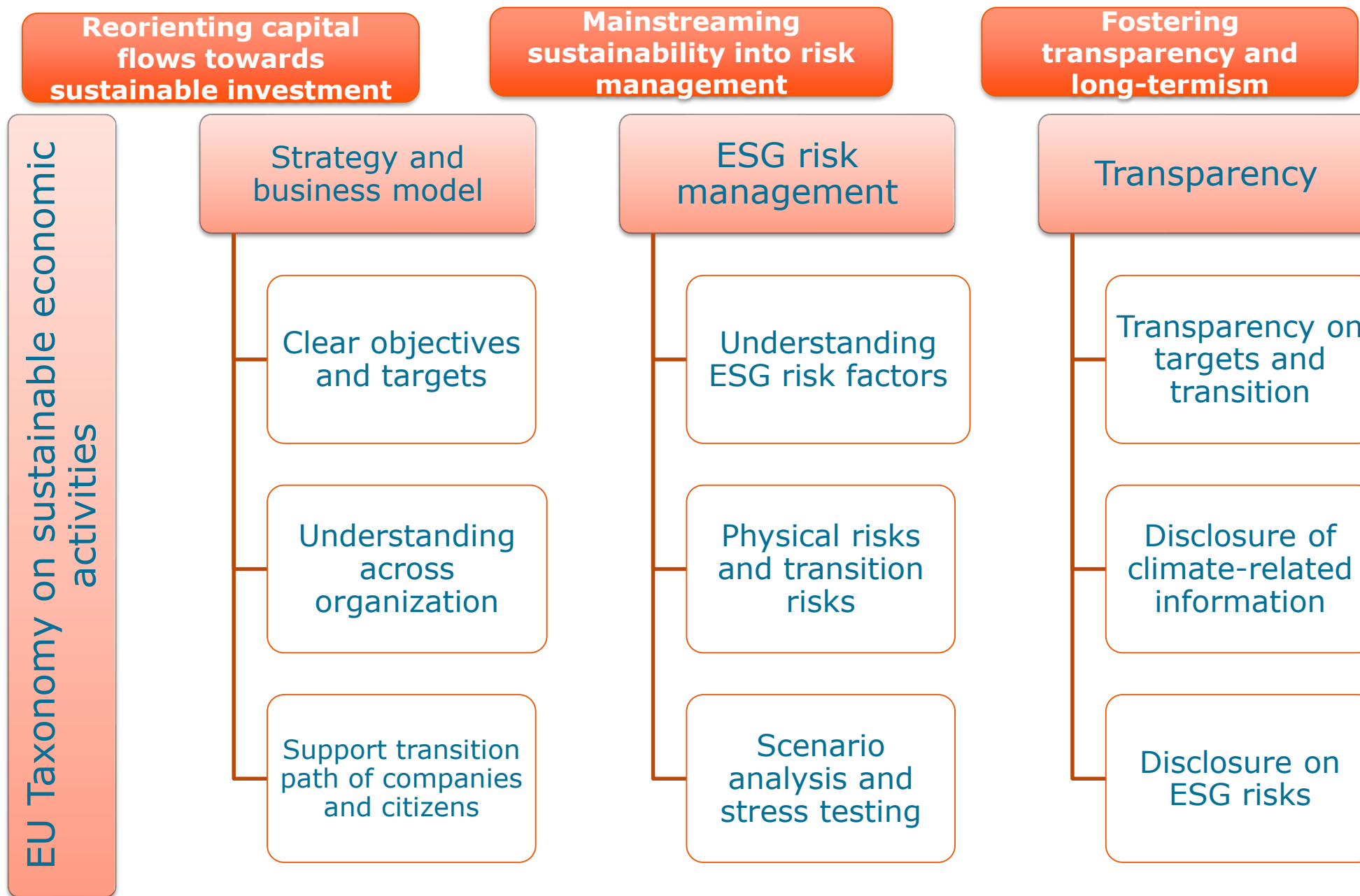


Not significantly harm any of the other five environmental objectives



Common language

Focus on the Taxonomy for banks

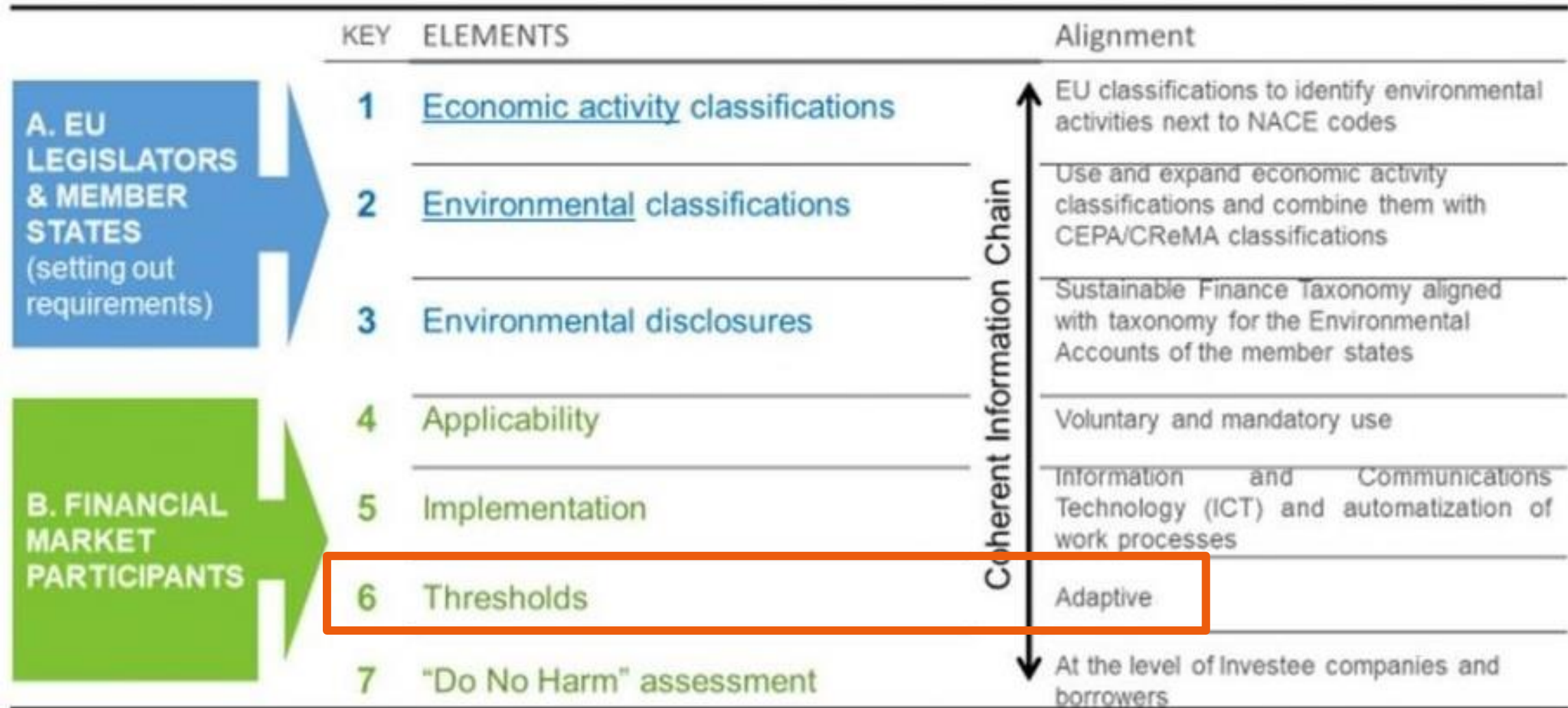


Uses and users of the Taxonomy

	Disclosure obligations	Optional additional uses
Pensions and Asset Management	<ul style="list-style-type: none"> UCITS funds: <ul style="list-style-type: none"> equity funds; exchange-traded funds (ETFs); bond funds Alternative Investment Funds (AIFs): <ul style="list-style-type: none"> fund of funds; real estate funds; private equity or SME loan funds; venture capital funds; infrastructure funds; Portfolio management. 	
Insurance	<ul style="list-style-type: none"> Insurance-based investment products (IBIP) 	<ul style="list-style-type: none"> Insurance
Corporate & Investment Banking	<ul style="list-style-type: none"> Securitisation funds* Venture capital and private equity funds Portfolio Management Indices funds 	<ul style="list-style-type: none"> Securitisation Venture capital and private equity Indices Project finance and corporate financing
Retail banking		<ul style="list-style-type: none"> Mortgages Commercial building loans Car loans Home equity loans

Usability of the taxonomy

7 KEY ELEMENTS OF THE TAXONOMY USABILITY



Looking at different issues under different mandates:

Action Plan on Sustainable Finance

- Incorporating sustainability in prudential requirements

Capital Requirements Regulation

- Disclosure of ESG-related risks, physical and transition risks
- Assessment of prudential treatment of green and social assets

Capital Requirements Directive

- Inclusion of ESG risks in SREP and how to assess impact of risks on lending

Incentivising Sustainable Finance

- **Sustainable Finance Guarantee Fund**
- **Green Loan Securitisation Framework**
- Preferential central bank funding & collateral treatment
- **Sustainable Finance Supporting Factor**
- Carbon price and fiscal measures
- National fiscal incentive policy examples

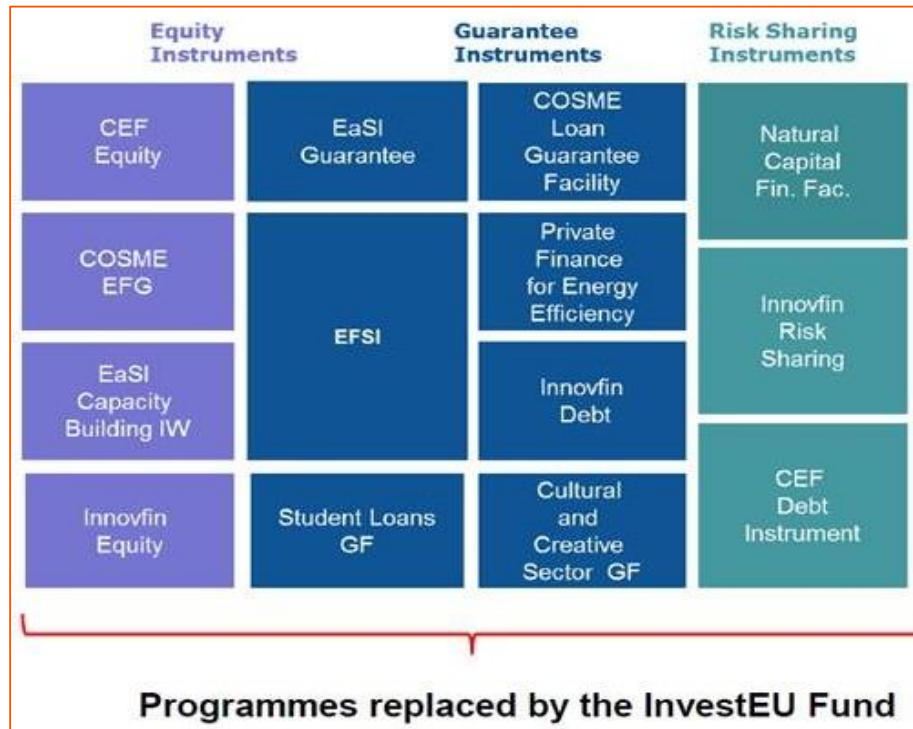
EBF report on incentives to be published soon

Sustainable Finance Guarantee Fund



Proposal

- Acting like a **complement of the InvestEU Programme**
- Providing **guarantees for several “de-risking mechanisms”** linked to sustainable finance
- Creating incentives for commercial leveraging and avoiding MDBs crowding out private finance
- **Increasing the overall risk-bearing capacity** of the EIB, the EIF, National Governments, NPBs, Credit Institutions, SMES



Window	Budgetary guarantee	Mobilised investment (estimate)
Sustainable infrastructure	11 500	185 000
Research, Innovation and Digitisation	11 250	200 000
SMEs	11 250	215 000
Social investment and skills	4 000	50 000
TOTAL (EUR Million, in current prices)	38 000	650 000

- Budget for InvestEU Advisory Hub, InvestEU Portal and accompanying measures is proposed to be EUR 525m
- InvestEU is expected to mobilise more than EUR 650bn of additional investment across Europe

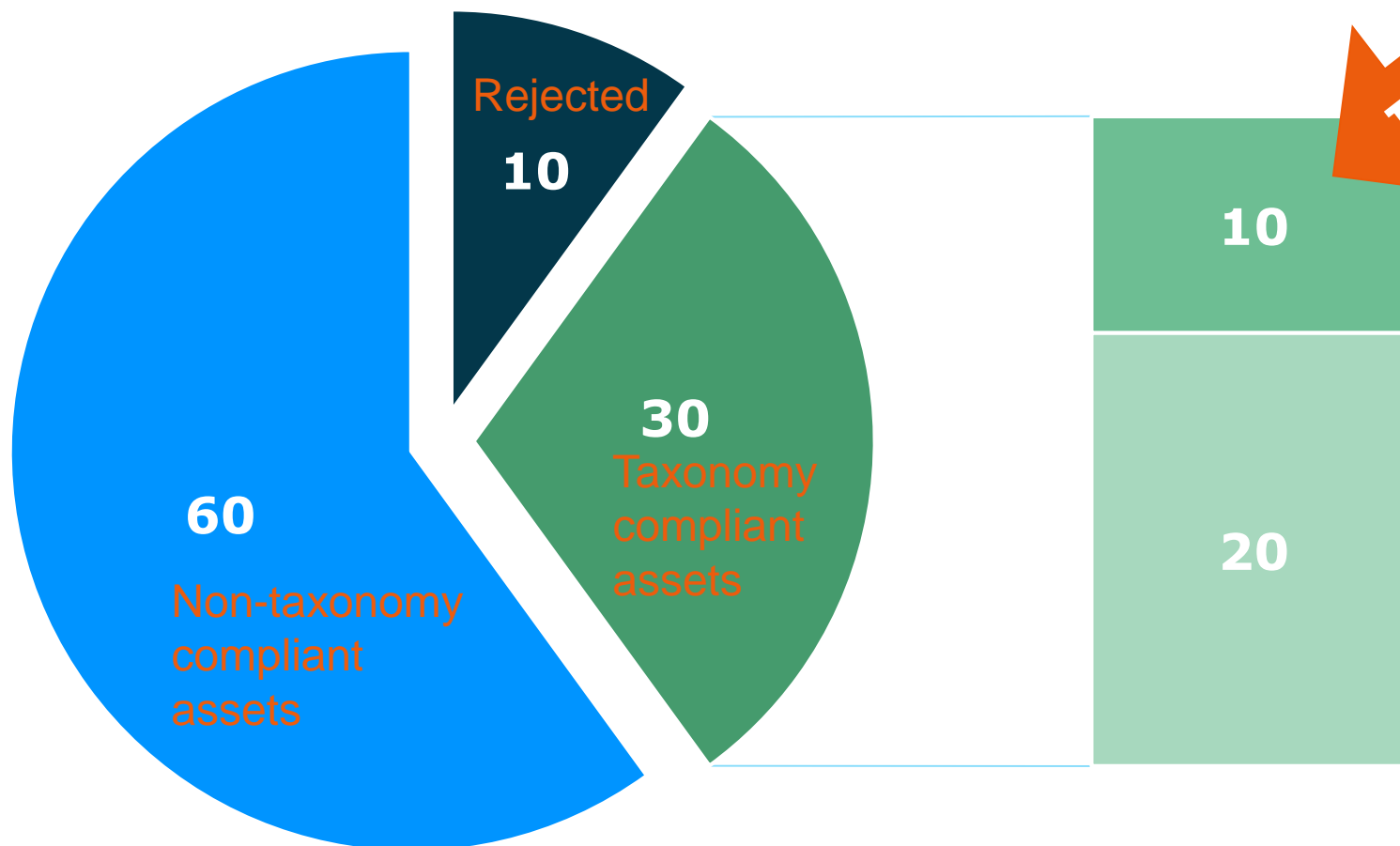
Green Loan Securitization Framework

- Objective: support of SF; development of market financing
- Aggregation of small-scale projects to mobilize finance
- Current STS framework – **too many operational constraints**
- Proposal for European Securitisation Mechanism for Green Loans
- A green STS-improved securitisation label
- Possible public guarantee
- **Preferential prudential treatment**
- To be further discussed and developed

Sustainable Finance Supporting Factor

Limited scope – application to **eligible assets** with reduced ESG related **financial** risk. (e.g. green mortgages, energy efficiency device production, circular economy projects, etc.) after forward looking assessment.

% Credit deals for Bank X



Incentivised

EBA defining eligible sustainable activities/ asset classes with reduced financial risks based on forward looking analysis

Shaping our future



UNEP
FINANCE
INITIATIVE

PRINCIPLES FOR RESPONSIBLE BANKING



01

ALIGNMENT

Align our business strategy with society's goals as expressed in the SDGs, Paris Climate Agreement and other frameworks



02

IMPACT

Continuously increase our positive impacts while reducing our negative impacts



03

CLIENTS & CUSTOMERS

Work responsibly with our clients and customers to create shared prosperity for current and future generations



04

STAKEHOLDERS

STAKEHOLDERS

Consult, engage and partner with relevant stakeholders to achieve society's goals



05

GOVERNANCE & TARGET SETTING

Implement commitments through effective governance and setting targets for our most significant impacts



06

TRANSPARENCY & ACCOUNTABILITY

Commit to transparency and accountability for our positive and negative impacts, and our contribution to society's goals



Thank YOU!



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