SURVEY

ACCESS TO SUSTAINABLE FINANCE FOR SMEs: A EUROPEAN SURVEY

2023

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Content

Executive Summary

Nearly 60% of the surveyed small and medium-sized enterprises (SMEs) are investing in their sustainable transition. This clearly indicates that the topic resonates strongly with SMEs, and that they are acting accordingly. Nevertheless, securing sufficient funding remains a significant hurdle: only 35% of SMEs' investments were funded by external sources, which is not enough to cover the massive financing required for the transformation.

A mere 16% of external financing can be classified as sustainable finance. The definition of "sustainability" varies widely. In 70% of cases, sustainability is determined by grants and subsidy programmes. These programmes are often viewed as burdensome, with lengthy application procedures. The survey also shows that EU taxonomy does not play a role in the definition of sustainability criteria for SMEs.

Considering the significant role of bank financing, as well as the limitations of existing subsidies and the low relevance of capital markets for SMEs, the capacity of banks to fulfil sustainable financing must be substantially increased through incentives and regulations. Beyond subsidy programmes, merely facilitating sustainable use-of-proceeds loans falls short. Specifically, SMEs require general purpose financing, such as ESG-linked loans.

Evidence suggests that larger corporations and banks indirectly impose reporting obligations on SMEs through a trickle-down effect, as they pass down their direct reporting requirements. The larger the SME, the more pronounced the effect is. However, micro-enterprises and service companies are also impacted to a lesser extent.

SMEs are actively addressing sustainability. 12% of them say they voluntarily produce sustainability reports and secure external ESG ratings. A striking 30% have established environmental management systems. Nonetheless, larger SMEs, which will soon be obliged to generate sustainability reports, are not adequately prepared for the introduction of the Corporate Sustainability Reporting Directive.

The survey underscores the eagerness of SMEs to transform. However, the current sustainable finance regulations fall short of meeting SMEs' needs. A simple and customized approach is essential. Thus, the following measures are proposed:

- **Development of a reporting standard for SMEs:** a simple sustainability reporting standard tailored for SMEs can serve as a valuable management tool. Besides guiding their strategies, it can counterbalance the trickle-down effect and provide banks with crucial data for loan appraisals, particularly if endorsed by the European Commission.
- **Regulatory standards for sustainable SME loans:** Moving beyond subsidies, it's vital to establish guidelines for sustainable loans tailored to SMEs. This would widen their access to diverse sustainable finance tools.
- **Encouraging major investments with favourable financing:** Current barriers for SMEs to get financed, such as the Green Asset Ratios (GAR), require reconsideration. The EU taxonomy, while adept for capital markets, cannot be applied to SMEs.
- **Optimising state subsidy programmes:** While state subsidy programmes remain crucial for SMEs, their design and delivery need to be more streamlined. Prioritising their accessibility and effectiveness is of utmost importance.

Introduction

Sustainable finance aims to integrate sustainability aspects in all financing decisions. The European Union (EU) is driving the shift towards a sustainable economy by introducing comprehensive financial regulations. In this sense, key instruments like the EU taxonomy for classifying economic activities, the Corporate Sustainability Reporting Directive (CSRD) for sustainability reporting by companies, and the Sustainable Finance Disclosure Regulation (SFDR) for financial institutions have been established. Alongside these key tools, various other tools have been implemented. What is common to all these instruments is their focus on large corporations, which are financed through capital markets, and their investors, who require extensive, standardised, frequently updated, and publicly available data on these businesses. SMEs, with their unique structure and often locally focused business models, usually exchange investment-relevant information through traditional relationship banking.

As a result, while many of the above-mentioned regulations attempt to exempt SMEs from certain requirements, this approach often falls short of its intent. Given the regulations' emphasis on comprehensive value chain disclosure, SMEs must still meet numerous requirements passed through by large corporations. They are obliged to comply even if they do not have the possibility to access capital markets for financing. Also, they exhibit distinct organisational frameworks and frequently have a restricted influence on sustainability goals owing to their constrained operational and economic scope. Furthermore, as banks are compelled to provide sustainability reports encompassing their entire portfolio, they frequently demand significant data from SMEs.

These circumstances place SMEs in a challenging position. Despite facing considerable disclosure obligations, they often cannot benefit from the growing sustainable capital market segments. Additionally, the absence of standardised criteria for sustainable loans makes banks hesitant about providing into such financing, fearing allegations of greenwashing.

Nevertheless, investments in sustainability by SMEs are crucial. The European Commission (EC) estimates that achieving the goals of the European Green Deal requires additional yearly investments exceeding €620 billion. While such estimates may carry uncertainties, what is clear is the need for a substantial surge — potentially two or three times the current levels — in investments to attain these objectives. With SMEs accounting for approximately 52% of Europe's GDP, as per the European Commission's data, it becomes evident that any economic transformation will only succeed if this dominant sector of the European economy is empowered and equipped with sustainable financing options.

There is a consensus on these facts. However, uncertainties remain in understanding the exact impact of current regulations and how they affect different SME segments, countries, or industries. Essential questions include:

- Into which sustainability objectives are SMEs channelling their investments?
- What instruments are SMEs using to finance these investments?
- How significant is the role of the sustainable finance-regulation for SMEs?
- How do SMEs handle other aspects of the sustainable finance-framework, such as the trickle-down effect of reporting obligations, ESG ratings, or environmental management systems?

This study seeks to fill this knowledge gap. It was commissioned by Eurochambres and SMEunited for the Platform on Sustainable Finance of the EU Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), and executed by the German Chamber of Commerce and Industry (DIHK) and Eurochambres. The study was conducted from 15 June to 7 August 2023. The survey was promoted through member organisations of SMEunited and Eurochambres. Additionally, DG FISMA and Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) contributed to its publicity through their social media channels.

The survey comprises two parts: First, an online questionnaire was made available. In the second part, in-depth interviews were conducted.

Evaluation of Quantitative Results

Data set

The questionnaire, which was published using the EUSurvey tool, received 2,142 responses from 25 EU countries. The translations of the questionnaire into the respective languages were done by the artificial intelligence integrated within the survey tool.

Despite the extensive coverage across countries, the distribution is not representative. Most responses came from Germany (approximately 60%) and Romania (approximately 25%), which means these countries are overrepresented. A detailed examination on the (small) extent of this bias on the results can be found in the annex. The following size categories have been used:

- **Microenterprise**: Up to 9 employees, up to 0.7 million Euros in turnover, up to 0.35 million Euros in balance sheet total.
- **Small Company**: Up to 49 employees, up to 8 million Euros in turnover, up to 4 million Euros in balance sheet total.
- **Medium-sized Company**: Up to 250 employees, up to 40 million Euros in turnover, up to 20 million Euros in balance sheet total.

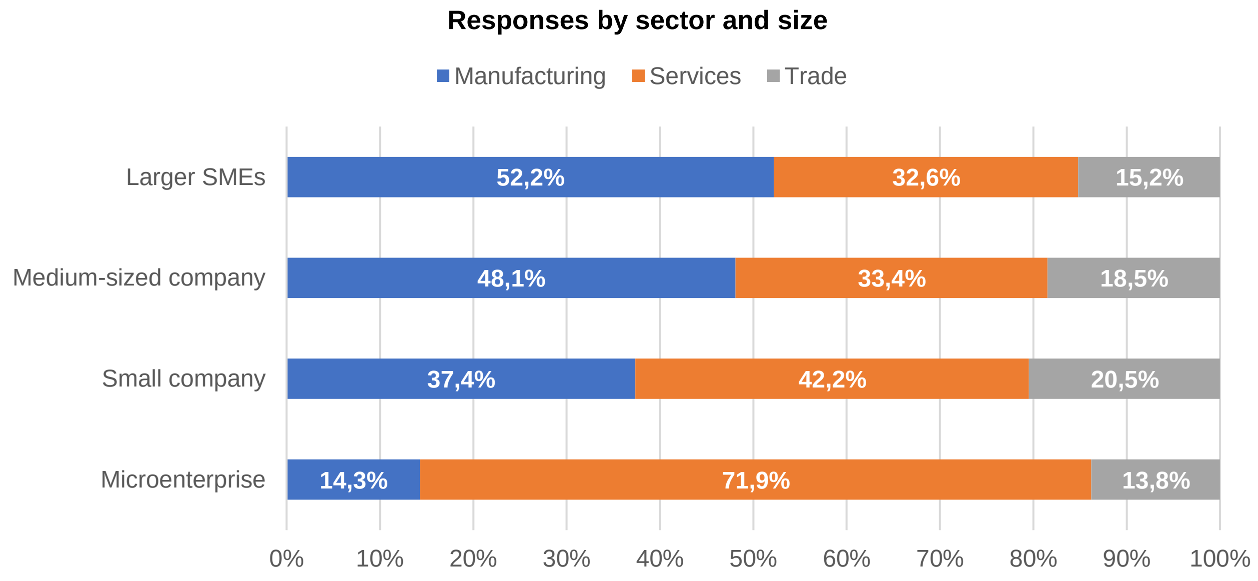
The size categories follow to the official EU definitions. Given that these categorisations might appear dated (with no updates since 2013), we also reached out to SMEs that exceed these limits. These larger SMEs fall directly under the reporting obligations of the sustainable finance-regulation (taxonomy, CSRD):

- **Larger SME**: Over 250 employees, over 40 million Euros in turnover, over 20 million Euros in balance sheet total.

The size of the participating SMEs is distributed as follows:

- 803 Microenterprises (approx. 37%)
- 626 Small Companies (approx. 29%)
- 437 Medium-sized Companies (approx. 20%)
- 276 Larger SMEs (approx. 13%).

As expected, the larger the SME, the greater its representation in the manufacturing sector. Service industries are dominant among smaller SMEs. The proportion of trading companies ranges between 13% and 21%.



There is a potential bias in the responses due to self-selection. Companies that are open to the topic might be more likely to respond. However, certain comments clearly indicate that even companies with strong reservations about the subject took part in the survey. Both observations are supported by individual responses in open-ended questions.

Based on self-disclosure, in about 63% of the cases, the responses came from the company's management, as follows:

Feedback by position of the responder

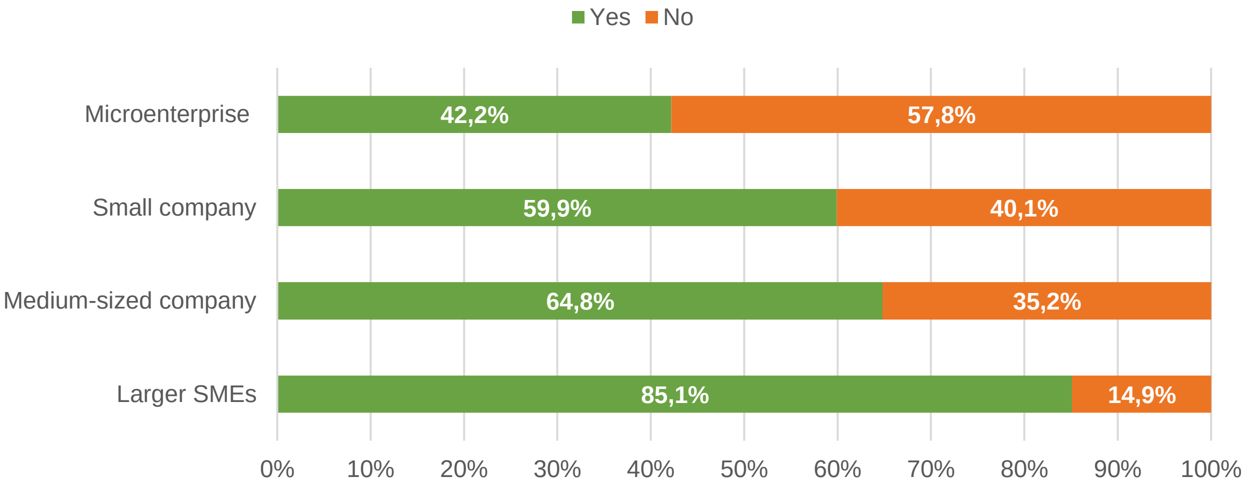
Managing Director	1,348	62,9%
Head of Finance / Controlling	334	15,6%
Sustainability Manager	60	2,8%
Other	400	18,7%
Total	2,142	

Survey Results

Investments in Sustainable Projects by SMEs

A significant majority of 58% (or 1,232 out of 2,142 respondents), of the surveyed companies have already invested in sustainable projects, with variations across sectors: 69% in manufacturing, 51% in services, and 54% in trade. A clear trend emerges: the larger the company, the greater their investment activity in this area.

Have you made any investments to improve the sustainability of your business?



According to the EC, 35% of European SMEs invested in sustainability in 2021.[1] This survey reflects a similar trend, with larger companies and those in the manufacturing sector leading the charge. While direct comparisons might not be entirely accurate, there appears to be a significant increase in investment activity in sustainable projects since 2022. The substantial rise in energy costs, following Russia's invasion of Ukraine, likely influenced this trend.

Companies have aligned their investments with the goals of the EU taxonomy (multiple nominations were possible). As expected, climate protection and climate adaptation were the most dominant, accounting for almost 40%. Prevention and reduction of environmental pollution were the second most important environmental objectives at 16%. Nonetheless, respondents also highlighted other aims, including social objectives and the pursuit of good corporate governance.

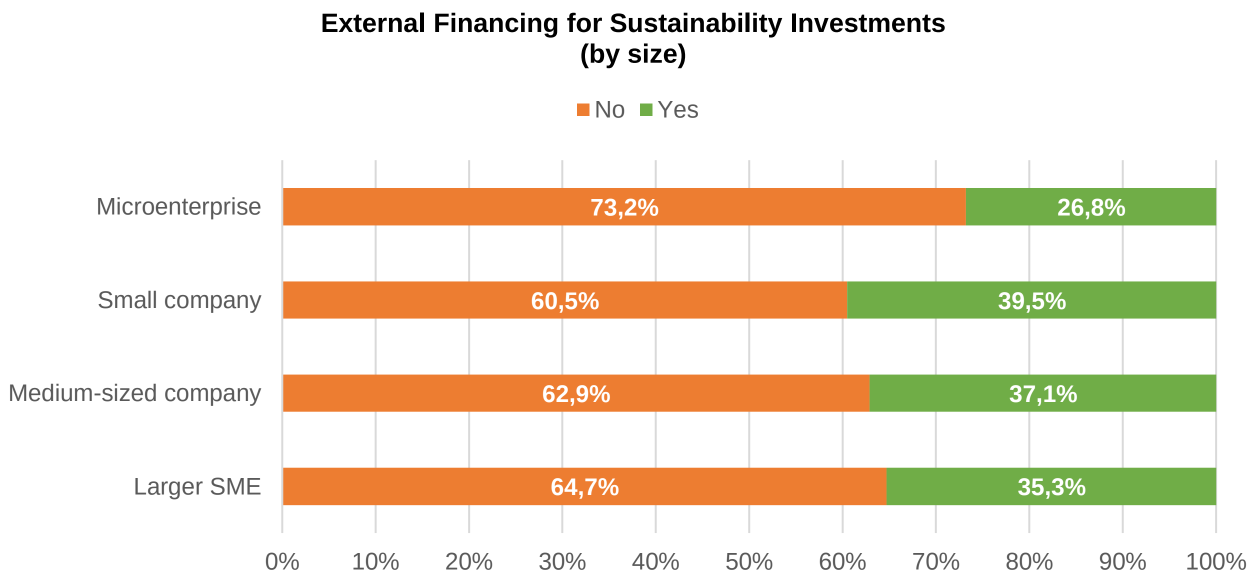
[1] Eurobarometer 498, DG GROW (https://europa.eu/eurobarometer/api/deliverable/download/file?deliverableId=81023)

Which sustainability goal did you pursue with these investments?

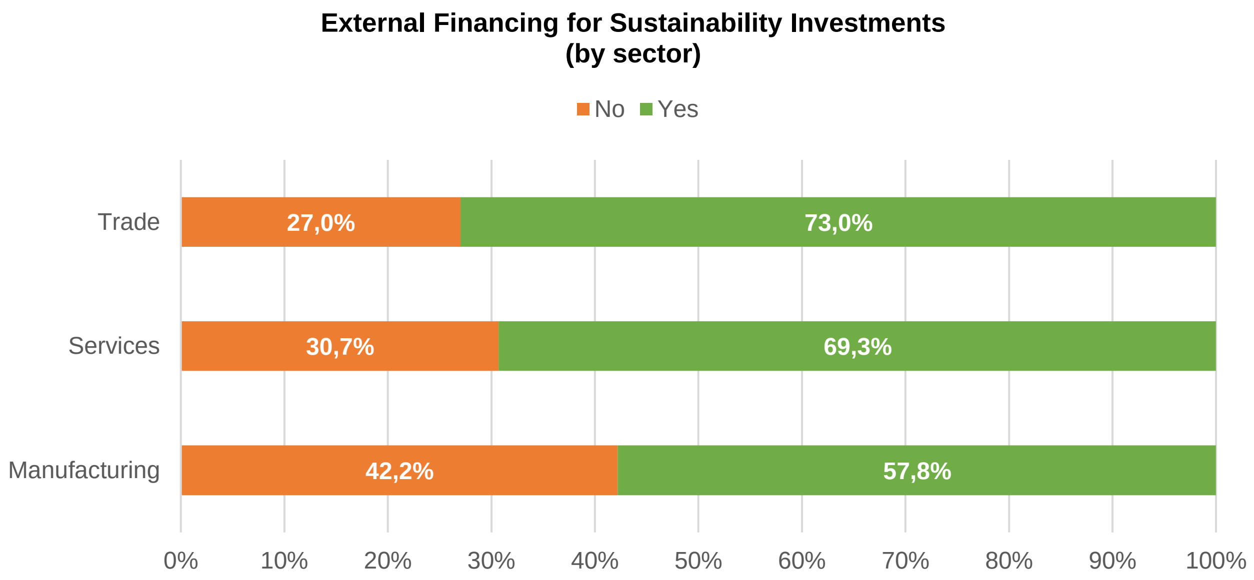
	Based on total answers	Answers per company
Climate protection	27,3%	39,5%
Adaptation to climate change	11,3%	16,3%
Pollution prevention and control	16,1%	23,3%
Transition to a circular economy	7,2%	10,4%
Sustainable use and protection of water and marine resources	5,1%	7,4%
Protection and restoration of biodiversity and ecosystems	4,5%	6,4%
Social goals	11,6%	16,8%
Good corporate governance goals	17,0%	24,6%

External Financing for Sustainability Investments

Out of the 1,232 companies that have invested in their sustainability, 427 (35%) have made use of external financing. However, microenterprises have significant less used external financing.



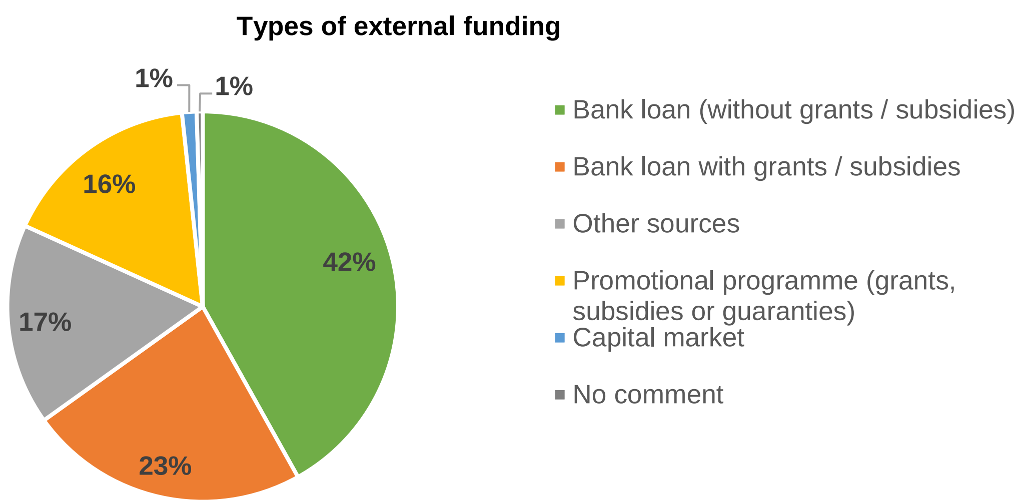
There are also differences across industries. In the manufacturing sector, the rate of external financing is higher than in services. The use of to external financing is even lower in the trade sector.



Financing instruments

Out of the 413 companies that made use of external financing, two-thirds got a loan from their bank. Within this subset, 42% obtained a loan without any associated grant or subsidy programme, while 23% integrated a promotional element.

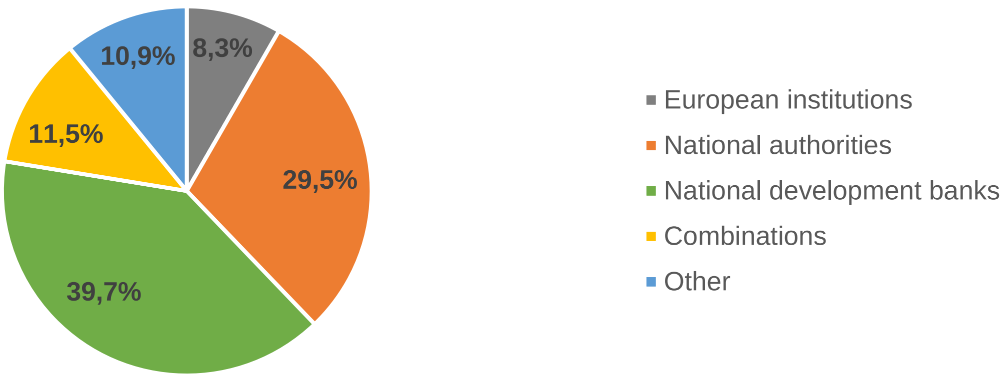
In contrast, all other forms of financing are significantly less common. Only 16% made use of a grant or subsidy program without the involvement of a bank. The share of capital market financing is minimal. The remaining 17% leveraged other instruments, with equity instruments—primarily family funds—being the dominant choice.



In a study from 2016, the European Banking Authority (EBA) highlighted that, for all SMEs in Europe, bank financing is by far the most dominant external source of financing. Capital market financing plays an almost negligible role across Europe,[2] an assessment that was echoed by the European Central Bank.[3]

In total, 156 companies specified the institutions from which they procured grants, subsidies, or guarantees. National authorities made up 40% of these sources, followed by national promotional banks at 30%. A further 12% derived from a mix of various institutions, some of which integrated European programmes.

Which institution provided the grants or subsidies?



Access to funding programmes is easier for larger companies. The smaller the company, the more they tend to rely on other or mixed forms of funding.

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[2] EBA Report on SMEs and SME Supporting Factor, 2016 (https://www.eba.europa.eu/sites/default/documents/files/documents/10180/1359456/602d5c61-b501-4df9-8c89-71e32ab1bf84/EBA-Op-2016-04%20%20Report%20on%20SMEs%20and%20SME%20supporting%20factor.pdf?retry=1)

[3] Survey on the access to finance of enterprises (SAFE), European Central Bank, (https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202306~58c0da48d6.en.html)

Which institutions provided grants or subsidies (per size)?

Larger SME	European institutions	5	13,5%
	National authorities	12	32,4%
	National development banks	15	40,5%
	Combinations	3	8,1%
	Other	2	5,4%
	Total	37	
Medium-sized company	European institutions	1	2,4%
	National authorities	14	34,2%
	National development banks	17	41,5%
	Combinations	5	12,2%
	Other	4	9,8%
	Total	41	
Small company	European institutions	5	9,3%
	National authorities	15	27,8%
	National development banks	21	38,9%
	Combinations	9	16,7%
	Other	4	7,4%
	Total	54	
Microenterprise	European institutions	2	8,3%
	National authorities	5	20,8%
	National development banks	9	37,5%
	Combinations	1	4,2%
	Other	7	29,2%
	Total	24	

From the perspective of different sectors, the differences in grant/subsidy programmes are less significant.

Which institution provided the grants or subsidies (per sector)?

Manufacturing	European institutions	7	9,0%
	National authorities	24	30,8%
	National development banks	26	33,3%
	Combinations	12	15,4%
	Other	9	11,5%
	Total	78	
Services	European institutions	4	6,8%
	National authorities	15	25,4%
	National development banks	28	47,5%
	Combinations	5	8,5%
	Other	7	11,9%
	Total	59	
Trade	European institutions	2	10,5%
	National authorities	7	36,8%
	National development banks	8	42,1%
	Combinations	1	5,3%
	Other	1	5,3%
	Total	19	

To date, SMEs have predominantly financed sustainable projects through bank loans, without reference to sustainable finance regulations or grant/subsidy programmes. Considering the substantial investment needed to realise sustainability goals, the proportion of external financing is insufficient. Given the paramount role of bank financing, coupled with its inherent limitations to fund at requisite volumes and the marginal role of capital market financing, it is imperative to implement more investment-friendly regulations for sustainable SME loans.

Sustainable Finance for SMEs

The primary objective of this survey, is to explore market practices for the Platform on Sustainable Finance: Do financing instruments exist for SMEs that align with the EU sustainable finance framework? If so, what characterizes these sustainable finance instruments? What defines their sustainability?

To explore this further, companies that reported procuring external financing were queried about the inclusion of sustainability indicators in their contracts. Out of the 413 companies that made use of external financing, 68 confirmed that their financing was linked to some kind of sustainability indicators. Meanwhile, 343 negated this, and 16 chose not to answer. These statistics remain relatively consistent across different sizes and sectors.

Were the sustainability goals linked to the grants? (by size)

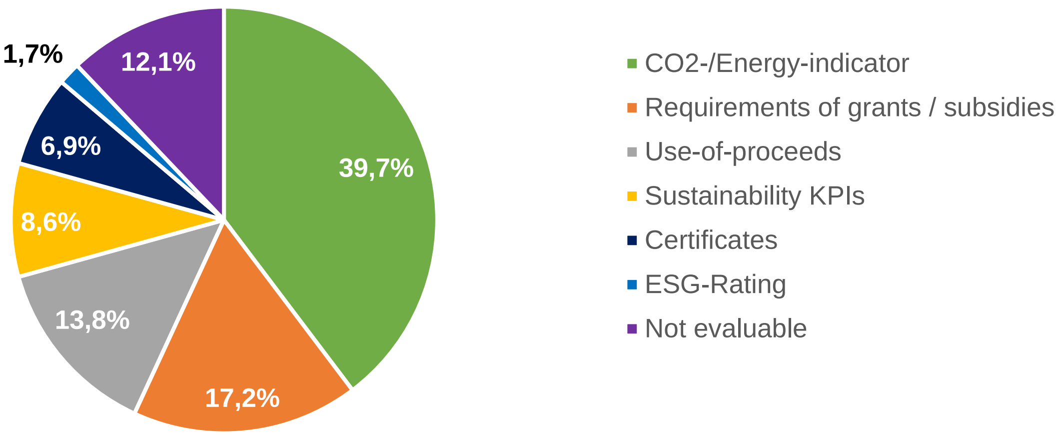
	No		Yes	
Larger SMEs	68	86,1%	11	14,02%
Medium-sized company	84	83,2%	17	16,8%
Small company	115	81,0%	27	19,0%
Microenterprise	76	85,4%	13	14,7%
Total	343		68	

Were the sustainability goals linked to the grants? (by sector)

	No		Yes	
Manufacturing	160	80,8%	38	19,2%
Services	140	85,9%	23	14,1%
Trade	43	86,0%	7	14,0%
Total	343		68	

Of the 68 sustainable financings, 58 provided specific indicators through open-ended responses. When categorised, the breakdown is as follows:

Categorised ESG-indicators



Only 14% of the sustainable financing was based on criteria directly related to the investment object itself (use-of-proceeds). For 17% of the financing, the indicators were prescribed by the requirements of the respective grant/subsidy programmes. Although 40% referenced CO_2/energy indicators, also in-depth interviews indicate that these criteria often stemmed from grant and subsidy initiatives. External certificates or ratings factored into a mere 8% of instances. This observation aligns when allocating the specified ESG criteria across various financing modalities programmes.

ESG criteria grouped across the forms of financing

Cluster	Form of financing	Answers
CO_2-/Energy Indicator	Bank loan	3
	Bank loan with grant/subsidy	9
	Grants / subsidies	7
	Others	5
	Total	24
Grants / subsidies	Bank loan	2
	Bank loan with grant/subsidy	3
	Grants / subsidies	1
	Others	3
	Total	9
Use-of-proceeds	Bank loan	1
	Bank loan with grant/subsidy	1
	Grants / subsidies	5
	Others	1
	Total	8
Sustainability KPI	Bank loan	1
	Bank loan with grant/subsidy	1
	Grants / subsidies	2
	Others	1
	Total	5
Certificates	Bank loan	2
	Bank loan with grant/subsidy	3
	Total	5

Out of the 24 companies that are obliged to meet CO_2/energy indicators for their sustainable financing, 16 indicated that their financing is linked to a grant/subsidy programme. A similar pattern emerges with the 'others' or use-of-proceeds indicators. When combining the explicit mentions of funding (grants and subsidies) programmes criteria and the naming of other criteria previously categorised but also with reference to, 70% of the responses can be identified grant/subsidy programmes as criteria for sustainable financing.

Out of the 15 financings that are not tied to grant or subsidy programmes, only two are related to use-of-proceeds, while the other 13 represent general-purpose financing at company level. Certificates could potentially become a more prominent mechanism for banks in structuring sustainable loans.

Taxonomy does not play a role in SME financing

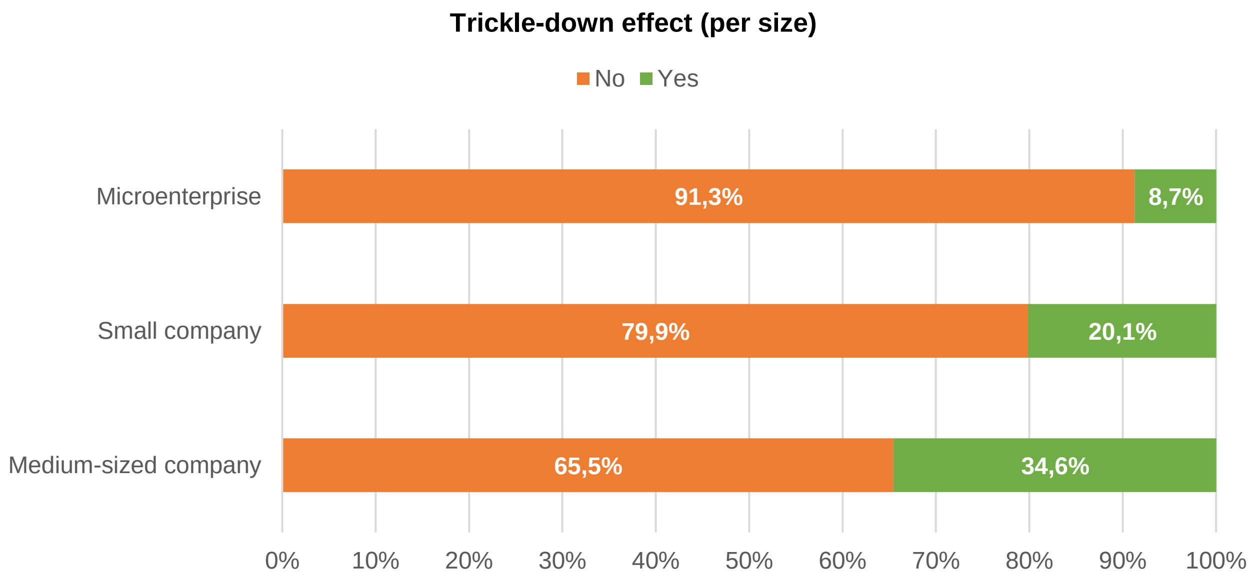
Only a small portion (16%) of external financing can be classified as sustainable finance. The definition of sustainability varies considerably. In most cases (70%), criteria are set by the corresponding grant or subsidy programmes, with a predominant focus on programmes energy/CO_2 reduction. Even with the explicit inclusion of the EU Taxonomy in the questionnaire, not a single participant referenced it.

Moreover, it is evident that beyond grant/subsidy programmes, facilitating SMEs with sustainable use-of-proceeds is not sufficient. A broader corporate-level approach to sustainable finance is essential for SMEs. Currently, sustainable funding opportunities for SMEs are primarily confined to grant and subsidy programmes.

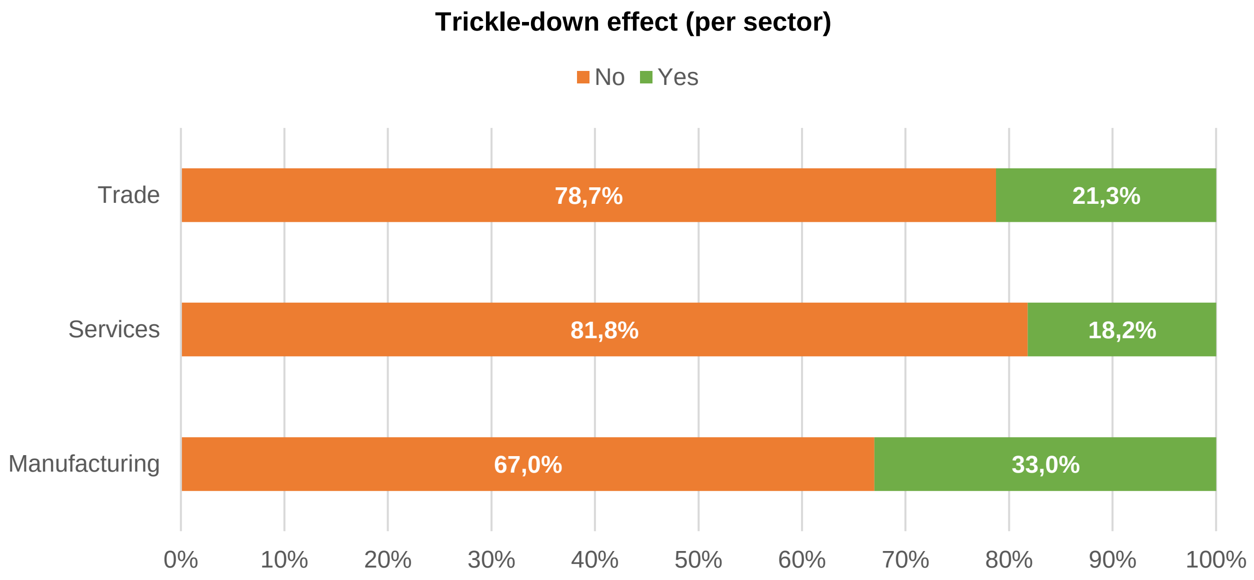
Trickle-down-effect on SMEs

The trickle-down effect refers to the phenomenon where indirect reporting obligations are imposed on entities. Specifically, larger companies and banks with direct reporting requirements relay these duties to smaller enterprises, even though the latter are not directly obliged to report. This obligation transfer arises either from the value chain disclosures of larger enterprises or through financial service providers.

Of the SMEs without a direct reporting obligation, 19% (or 347 out of 1,866) indicate they are subject to these indirect reporting demands. Nonetheless, this impact differs considerably based on company size. Medium-sized enterprises report a 35% incidence, whereas the figure dwindles to just 9% for microenterprises. It is noteworthy that these percentages are expected to shift once the CSRD/ESRS reporting amplifies the trickle-down effect.

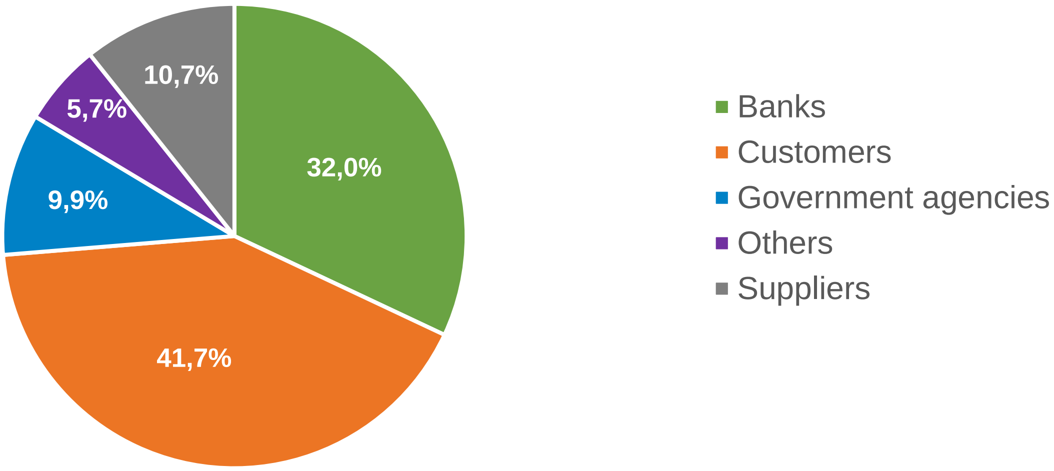


Among the SMEs with a direct reporting obligation, 57% (or 158 out of 276) also state they face extra indirect reporting requirements. Sectoral disparities are evident too. The manufacturing industry experiences a more pronounced trickle-down effect at 33%, while service providers report a lesser impact at 18%.



505 companies identified the institution that requested information from them. 42% indicated that their primary source of information requests came from their own customers. Banks were the next significant group, comprising 32% of such requests. It's worth noting that these figures account for multiple mentions by the respondents.

Who initiated sustainability requests?

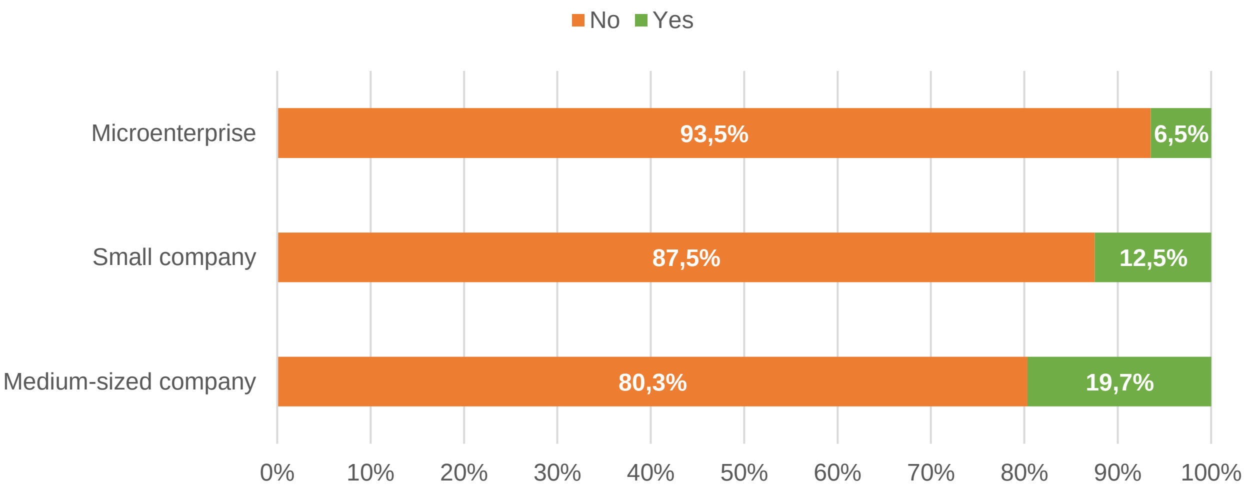


Voluntary Sustainability Initiatives by SMEs

Voluntary Sustainability Reporting

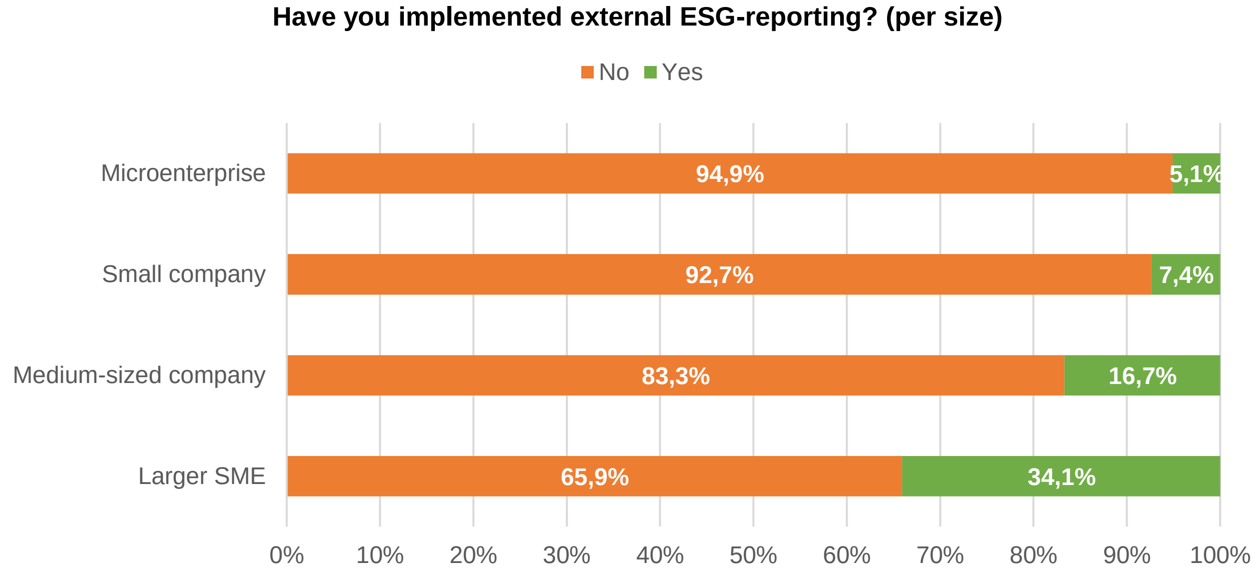
Out of the 1,866 SMEs without direct sustainability reporting obligation, 12% indicate that they voluntarily produce a sustainability report. Significant differences exist when considering the size of the businesses: 20% of medium-sized companies take this initiative, compared to just 6% of micro-enterprises.

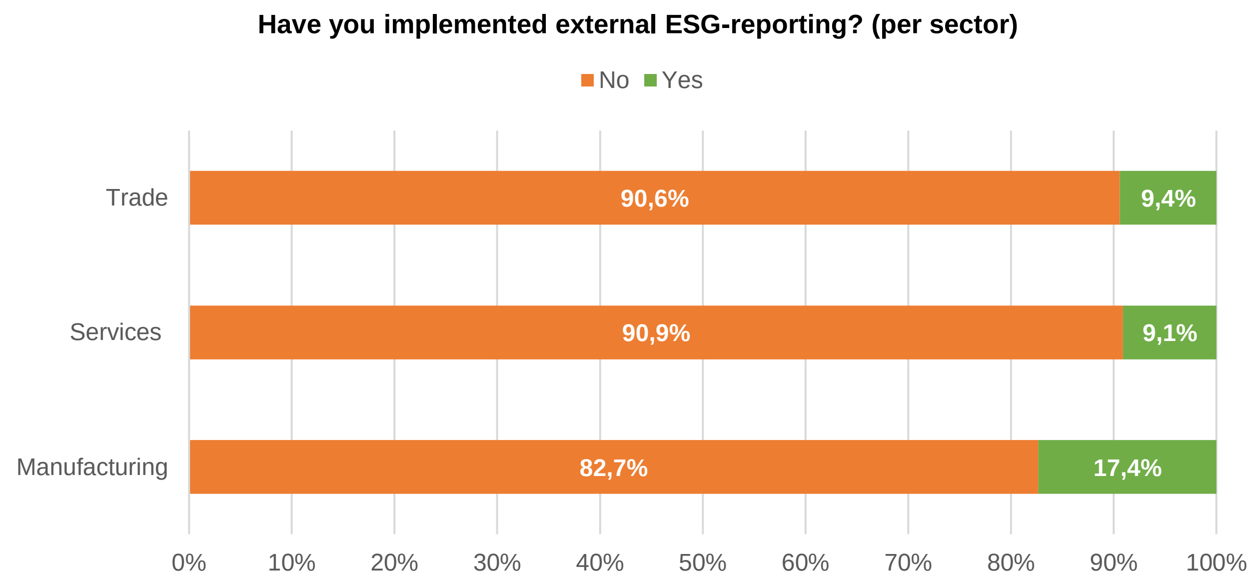
Have you implemented a voluntary sustainability reporting?



External ESG-Ratings

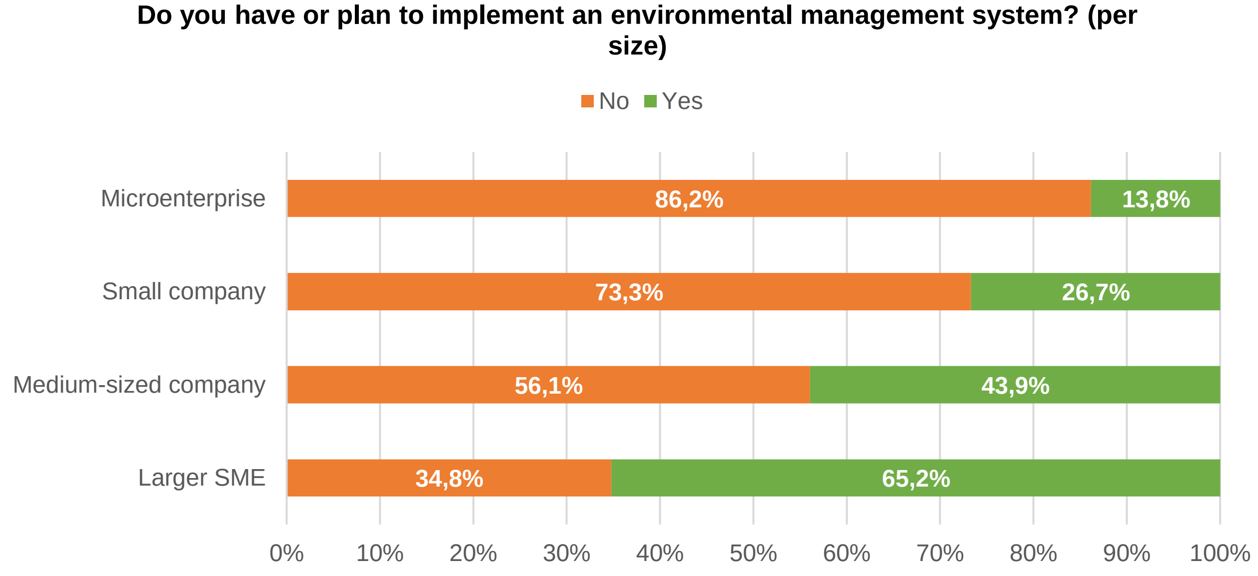
Similar to voluntary sustainability reports, about 12% of companies possess external ESG-ratings. This figure spans from 34% for larger SMEs to only 5% for micro-enterprises. The variance is less pronounced between sectors. For example, the manufacturing industry sits at 17%, while trade and services hover around 9%.

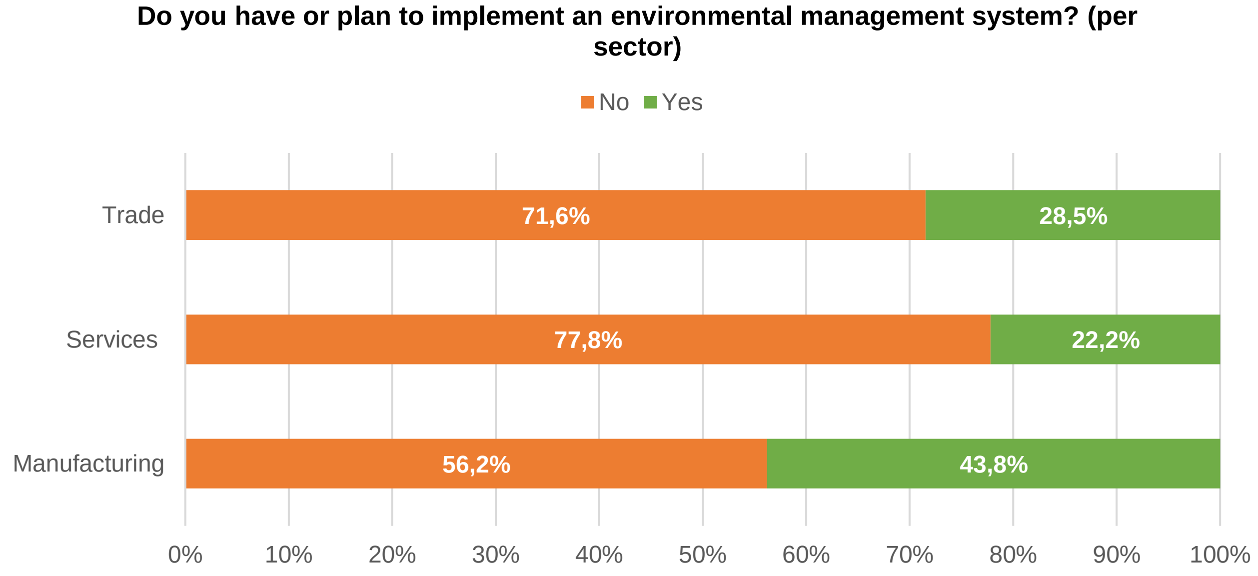




Environmental Management System

Environmental management systems are significantly more popular than ESG-ratings. On average, 30% of companies have adopted such systems. This number rises to 65% for larger SMEs, and even 14% of micro-enterprises have such a system in place. Examining the data by sector, there's a variance with 44% in the manufacturing industry, 22% in trade, and 28% in services.





Assessment from Mandatory Reporting Companies

Considering the upcoming implementation of the CSRD from 2024, larger SMEs, which are directly subject to the reporting obligations, were asked about their preparedness.

The survey shows that 127 companies have discussed the matter with their auditors/tax consultants and 102 have explored technical solutions. 109 companies can use the data for environmental management within their businesses, while 90 use the reports for inquiries from the value chain or banks.

Only a minority of the affected companies answered all questions. The fact that only 92 out of the 276 companies believe they are sufficiently informed about the impending reporting requirements is especially worrisome.

Evaluation of Qualitative Results

The second part of the study includes qualitative results from interviews with selected companies. In approximately 20-minute conversations, a deeper understanding of the sustainable investments of individual companies was sought.

Data set

Out of the 2,141 companies that participated in the survey, those that made sustainability investments in the past two years and used external sustainable financing were selected. 30 of these provided their contact details. Interviews took place between17 July and 31 August 2023. In total, 14 conversations were held following the replies to the survey, focusing on the type of sustainable investments, their significance to the company, financing, and data collection. Entrepreneurs also had the opportunity to provide feedback and comments.

Interview results

Investments

Many sustainability investments were in tangible assets, predominantly aimed at expansion and efficiency improvements. This includes procuring more advanced machinery, transitioning to electric or gas-powered vehicles, and upgrading to contemporary heating systems. The primary goals were to minimise energy use, cut down electricity expenses, and reduce CO_2 emissions. Some of these investments refined existing production methods, while others, like installing solar panels on rooftops, did not directly impact the products or services.

Entrepreneurs reported that investments in new machinery were often made even if existing equipment was still working. However, given uncertainties in market and technology, some preferred leasing to buying, e.g., for the transition of a truck fleet from diesel to electric.

Financing

External financing for sustainable investments comes from different sources. Most entrepreneurs emphasize the importance of promotional banks. In addition, many businesses tap into grants and subsidies from national, European, and international institutions, with the European Bank for Reconstruction and Development being a prime example at European level.

Thanks to these programmes, sustainable financing becomes attractive for companies as it combines with grants or subsidised interest rates. Such loans are often linked to environmental performance indicators, such as energy efficiency, resource savings, or waste reduction. It is noted that the dialogue between the bank and the company becomes more intensive. Going to the capital market is seen as too expensive.

One entrepreneur, while sceptical of ESG requirements as they overly influence business decisions, recognises their competitive advantage. Compared to competitors, he early on advocated for sustainable concepts in production and operation because these actions would help the company in grant applications and loans.

ESG-data

Many investments are directly linked to potential savings and sustainability goals, requiring companies to collect substantial amounts of data and provide it to their financiers. Every company indicated that sustainable financing required a huge range of ESG data.

A mining contractor commented ironically that his company's archives now serve as an extension of the national State Office for Mining, Geology, and Raw Materials, the State Office for Technical Safety, as well as the Conservation Authority.

Previously, the primary focus was on environmental and consumption data, but the significance of social metrics is on the rise. Environmental data mainly concerns electricity and energy consumption, carbon footprint, wastewater, and pollutant emissions. Social data reflects workforce structure, safety, and health. Governance data primarily includes details about value chains and compliance. The provision of this data by companies and its verification by financiers leads to significant burden.

An industrial entrepreneur views ESG data as a demanding, yet necessary evil. For a 49-page questionnaire from a major client, it took four working days to complete. While it might seem tedious, these requirements have become mandatory for large corporations, meaning that small and medium-sized enterprises need to keep pace to retain their business partners.

Business owners report increasing demand for ESG data from their clients and external financiers. As a result, companies face additional efforts due to the growing volume of data. As small and medium-sized businesses often gather the data themselves, they are hiring more staff or increasingly using external service providers, such as IT, finance, and energy consultants. This has led to a proliferation of certificates.

Despite receiving a positive funding decision, an entrepreneur did not get his funds. This was because, following multiple investments in the first quarter, he reported negative figures. However, a clause in the funding agreement stated that this would immediately halt any pay-out. Despite advisory costs exceeding 10,000 €, the entrepreneur couldn't access the funds

One entrepreneur explained that 1 out of 5 partners in his company is solely responsible for gathering and processing data. Yet, a willingness to disclose and an awareness of ESG remains a unique selling point.

A logistics entrepreneur understood the need to verify ESG data. However, he was surprised when representatives from a promotional bank visited his operation. Instead of traditionally using the invoice of the subsidized tires as proof, they checked whether the tires were in use.

General remarks

Many SMEs criticise the lack of options for sustainable finance. Additionally, many entrepreneurs are unaware of available grants or subsidies. Since sustainable investments often come with substantial fixed costs, start-ups, and small businesses in particular face financing challenges due to a lack of collateral.

Many entrepreneurs also criticise the current implementation. The massive effort involved in data collection, which drains resources from companies, is a primary concern. The long processing time, delayed pay-outs, and ambiguous evaluations of the grant programmes are also problematic. However, as these are essential for sustainable financing, businesses hope for more support in terms of consultation and knowledge-building.

One entrepreneur talked about the effort to acquire new knowledge on sustainability and climate protection. She attended management seminars alongside her work. Fortunately, this could coincide with her company's operations as her brother, serving as co-CEO, managed the day-to-day business. Despite the significant time commitment, the seminars helped her develop a new business strategy.

Grants and subsidies in sustainable finance currently lacks a unified approach, as companies based in certain countries in the EU can access grants more easily than others. Moreover, the metrics and conditions vary significantly.

An entrepreneur from the logistics sector criticized the European framework for grants. While he had to provide data on CO_2 emissions in his home county, neighbouring European countries required different data. A unified reporting standard would greatly benefit him. The same goes for the promotion of technologies. The entrepreneur pointed out that European countries promote specific technologies, like electric or LNG-driven vehicles, but not necessarily CO_2-reducing technologies in general. This results in the lack of necessary charging and refuelling infrastructure in different countries.

Policy Recommendations

ESG-data / sustainability reporting

Challenge
The reporting requirements for large enterprises are passed on to SMEs through various channels (trickle-down effect). These divers reporting requests are burdensome for the SMEs and result in significant costs without offering benefits like easier access to financing.

Recommendation
SMEs, larger than micro-enterprises, require a simple and proportional reporting standard. The primary focus should be on the transformation management of each enterprise. Moreover, this standard should limit the trickle-down effect within the value chain, akin to the "Listed SME Standard" mentioned in the CSRD.

The voluntary SME standard proposed by EFRAG, which will be set for consultation this fall 2023, holds the potential to meet these requirements and should be further developed accordingly. The number of metrics should be limited to make sure even small enterprises are able to meet them.

Sustainable bank loans

Challenge
The EU taxonomy is not suitable for SME loans. Its design is geared towards the capital market, making it too extensive and complex for SMEs. At the same time, banks need to avoid the accusation of greenwashing and must assess ESG risks.

Recommendation
The EBA will provide the European Commission with recommendations on sustainable loans by the end of 2023 or beginning of 2024. It is essential to define sustainable loans for SMEs as simple as possible, without reference to the taxonomy. The focus should be on general purpose lending: ESG-linked loans, which are already common for larger companies, should also be accessible for SMEs. The key performance indicators (KPIs) for ESG-linked loans should align with the voluntary SME standard.

Transition loans

Challenge
The credible and science-based transition plans set in the European Commission's Transition Finance documents (June 2023) are not feasible for SMEs. Proportional and simplified plans for each sector (without scenarios but with realistic reduction strategies) are necessary to finance the transformation without being accused of greenwashing.

Recommendation
Sector-specific transition plans outside the taxonomy, e.g., developed by promotional banks or public institutions, which are science-based and user-friendly, should be accessible to SMEs. They should allow for individual adaptations, as businesses, based on their industry, size, and location, may need to pursue different pathways to achieve sustainability goals. It is crucial that these approaches are also accepted by banking regulatory authorities.

Framework conditions

Two conditions need to be considered:

Financial Incentives: Offering sustainable loans to SMEs is cost-intensive due to smaller volumes. To promote the necessary significant increase in investments, financial incentives are essential. These could include reduced capital requirements, securitisation of sustainable SME loans, public funds to cover initial losses or their use as security in the Euro system.

Green Asset Ratio: SMEs cannot meet the multi-level taxonomy reporting requirements, so they should no longer be included in the denominator of the Green Asset Ratio (GAR). A specific SME-GAR that considers sustainable SME loans in relation to all SME loans, as well as transformation loans from SMEs in relation to all SME loans, could – based on a clear and flexible EBA framework for green and transition SME financing as mentioned above – stimulate the transformation in the SME sector.

Annex

Relevance of country biases

Considering the high share of responses from Germany, one might question whether the results systematically differ from those of other countries. If so, this could limit the validity of the survey for drawing Europe-wide conclusions. Hence, the following will compare the German responses with those from all other countries.

The distribution by company size shows minor variations. The German dataset has a slightly higher representation of medium-sized firms, with a correspondingly smaller presence of micro-enterprises. Similarly, the manufacturing sector's representation is higher in the German dataset, while the services sector is a bit underrepresented. Nevertheless, these differences are relatively minor.

Comparison of German and non-German Answers by company size

	German		Non-German		Difference
Larger SMEs	155	11,8%	121	14,5%	2,7%
Medium-sized company	201	15,4%	236	28,3%	12,9%
Small company	379	29,0%	247	29,7%	0,7%
Microenterprise	574	43,9%	229	27,5%	-16,4%
Total	1309		833		

Comparison of German and non-German Answers by sector

Per sector	German		Non-German		Difference
Manufacturing	373	28,5%	330	39,6%	11,1%
Services	739	56,5%	339	40,6%	-15,9%
Trade	197	15,1%	165	19,8%	4,7%
Total	1309		833		

For both, the investments made and the proportion of external financing, the differences are even smaller. In both cases, the variance is less than 5% of the responses.

In the last two years, have you made any investments to improve the sustainability of your business?

	German		Non-German		Difference
Yes	776	59,3%	456	54,7%	-4,4%
No	533	40,7%	377	45,3%	4,4%
Total	1309		833		

Did your company use external funding for green investments?

	German		Non-German		Difference
Yes	257	33,1%	170	37,3%	4,2%
No	519	66,9%	286	62,7%	-4,2%
Total	776		456		

Regarding financing types, the differences are also minimal. The most notable distinction lies between standard bank loans and those combined with grant/subsidy programmes. In Germany, there's a pronounced tendency for bank loans to be linked with these programmes.

What kind of external investment did your company use?

	German		Non-German		Difference
Bank loan	91	37,5%	82	48,2%	10,7%
Bank loan with grants / subsidies	73	30,0%	23	13,5%	-16,5%
Capital market	4	1,7%	1	0,6%	-1,1%
Grant / subsidy program	39	16,1%	29	17,1%	1,0%
Others	36	14,8%	33	19,4%	4,6%
No comment	0	0,00%	2	1,2%	1,2%
Total	243		170		

In conclusion, the responses from Germany show only slight differences, making them applicable for evaluations at European level. The only significant factor to consider is the scope and structure of the available grant and subsidy programmes.

Feedback by Country

	Survey		Interviews	
Country	**Total feedback**	**Share**	**Total feedback**	**Share**
Belgium	29	1,35%	1	7,15%
Bulgaria	12	0,56%	1	7,15%
Denmark	3	0,14%		
Germany	1,309	61,11%	11	75,57%
Estonia	1	0,05%		
Finland	2	0,09%		
France	20	0,93%		
Greece	3	0,14%		
Ireland	5	0,23%		
Italy	24	1,12%		
Croatia	6	0,28%		
Latvia	13	0,61%		
Lithuania	2	0,09%		
Luxembourg	3	0,14%		
Netherlands	7	0,33%		
Austria	30	1,40%	1	7,15%
Poland	18	0,84%		
Portugal	1	0,05%		
Rumania	498	23,25%		
Slovenia	2	0,09%		
Spain	11	0,51%		
Sweden	3	0,14%		
Cyprus	2	0,09%		
Czechia	135	6,30%		
Hungary	3	0,14%		
Total	2,142		14	

Feedback by size

	Survey		Interviews	
Size of the company	**Total feedback**	**Share**	**Total feedback**	**Share**
Large	276	12,89%	2	14,29%
Medium	437	20,40%	4	28,57%
Small	626	29,23%	4	28,57%
Micro	803	37,49%	4	28,57%
Total	2,142		14	

Feedback by sector

	Survey		Interviews	
Sector	**Total feedback**	**Share**	**Total feedback**	**Share**
Manufacturing	703	32,82	8	57,14%
Services	1077	50,28%	6	42,86%
Trade	362	16,90%		
Total	2142		14	

Feedback by industry

	Survey		Interviews	
Industry	**Total feedback**	**Share**	**Total feedback**	**Share**
Agriculture, Forestry, and Fisheries	157	7,33%	25	14,29%
Surface Mining (or Open-pit Mining)	24	1,12%	1	7,14%
Production	435	20,31%	4	28,57%
Electricity, Gas, Steam, and Air	15	0,70%		
Water, Waste, and Recycling	15	0,70%		
Construction	57	2,66%		
Transport and Logistics	102	4,76%	1	7,14%
Hospitality (or Gastronomy/Catering)	53	2,47%		
Information and Communication	171	7,98%		
Finance and Insurance	109	5,09%	2	14,29%
Real Estate	92	4,30%	3	21,43%
Science and Technology	115	5,37%		
Administrative Services	96	4,48%		
Public Administration and Social	5	0,23%		
Education	21	0,98%		
Health	41	1,91%		
Arts, Entertainment, and Recreation	21	0,98%		
Other Services	156	7,28%	1	7,14%
Household Services	2	0,09%		
External Institutional Services	2	0,09%		
Wholesale and Retail Trade	362	4,15%		
Others	91	16,90%		
Total	2,142		14	

Questionnaire

SME Questionnaire on Sustainable Finance

Fields marked with * are mandatory.

Disclaimer
The European Commission is not responsible for the content of questionnaires created using the EUSurvey service - it remains the sole responsibility of the form creator and manager. The use of EUSurvey service does not imply a recommendation or endorsement, by the European Commission, of the views expressed within them.

The EU developed a Sustainable Finance-framework to support investments in sustainabilty, meaning in E-nviromental, S-ocial and G-overnance (ESG)-projects. This survey wants to evaluate the market practices.

Size of your company

* How large is your company? (2 of 3 criteria must not be exceeded)
at most 1 choice(s)

- [ ] Microenterprise (up to 9 employees, up to 0.7 million euros net sales, up to 0.35 million euros total assets)
- [ ] Small company (up to 49 employees, up to 8 million euros in net sales, up to 4 million euros in total assets)
- [ ] Medium-sized company (up to 250 employees, up to 40 million euros in net sales, up to 20 million euros in total assets)
- [x] Larger company (more than 250 employees, more than 40 million euros in net sales, more than 20 million euros in total assets)

Access to Sustainable Finance

* In the last two years, have you made any investments to improve the sustainability of your business (contribute to goals of European Green Deal, e.g. ressource efficiency)?
at most 1 choice(s)

- [x] Yes
- [ ] No

Which sustainability goal - additionally to business reasons - did you pursue with these investments? (multiple choice possible)

- [ ] Climate protection (esp. reduction of CO2-emissions)
- [ ] Adaptation to climate change (e.g. insulation of buildings)
- [ ] 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
- [ ] Social goals
- [ ] Good corporate governance goals

* Did your company need external funding for these investments?
at most 1 choice(s)

- [x] Yes
- [ ] No

Which one(s)?

- [ ] Bank loan
- [ ] Capital market funding
- [ ] Grants, subsidies or guarantees
- [ ] Other sources of financing (capital increases by owners, private equity, etc.)

Have any sustainability criteria been included in the contract (e.g. taxonomy criteria, ESG-ratings, sustainability KPIs)?
at most 1 choice(s)

- [x] Yes
- [ ] No

Which criteria were included in the contract?

Sutainability Reporting
As a large enterprise you will need to prepare sustainability reports (based on CSRD / ESRS) from 2024 on.

I am in communication with my tax advisor and/or auditor and have started preparations.
Move the slider or accept the initial position.

no communication | regular communication
0
-1 | 1

I use IT tools and/or services of data providers to generate the data I need.
Move the slider or accept the initial position.

no usage | intensive usage
0
-1 | 1

I can also use the data I prepare for the sustainability report for inquiries from the supply chain and from banks.
Move the slider or accept the initial position.

Very little | Very much
0
-1 | 1

I can also use the data I prepare for the sustainability report as management tool in my company.
Move the slider or accept the initial position.

Very little | Very much
0
-1 | 1

I have sufficient knowledge, overview and specialist staff to be able to fulfill the reporting requirements.
Move the slider or accept the initial position.

Very little | Very much
0
-1 | 1

* Do business partners and / or banks ask you to provide sustainability information about your enterprise?
at most 1 choice(s)
- [ ] Yes
- [ ] No

* Do you have an ESG-rating or are you planning to get one?
(ESG: E-nviromental, S-ocial and G-overnance; rating: extrenal ratings by an agency)
at most 1 choice(s)
- [ ] Yes
- [ ] No

* Do you have or plan to implement an environmental management system?
at most 1 choice(s)

- [ ] Yes
- [ ] No

Your company

* How do you classify your company?
at most 1 choice(s)

- [ ] Manufacturing company
- [ ] Service company
- [ ] Wholesale and Retail Trade (NACE G)

* In which country is the head office of your company located?
at most 1 choice(s)

Austria
Belgium
Bulgaria
Croatia

What is your function in your company?
at most 1 choice(s)

- [ ] Managing Director
- [ ] Head of Finance / Controlling
- [ ] Sustainability Management
- [ ] Other

* May we contact you for follow-up questions or further surveys?
at most 1 choice(s)

- [x] Yes
- [ ] No

* Contact details (name, company name, E-mail address, phone number):

Submit

[Eurochambres](https://www.eurochambres.eu)

The association of European chambers of commerce and industry - represents approximately 20 million businesses in over 40 countries and via a European network of 1700 regional and local chambers. Chambers' member businesses employ over 120 million people.

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SME United

The European Association of Craft, Small and Medium-Sized Enterprises or SMEunited is an umbrella group for associations of SMEs based in Brussels, Belgium. SMEunited represents the interests of European crafts, trades and SMEs at EU level.

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