

Event #02 – The impacts of taxonomy on banks loans and SMEs

A joint ecoDa / Mazars Webinar

On the 5 April 2022, ecoDa and Mazars hosted their second webinar in their joint event series on sustainability and SMEs. This session focused on how the EU Taxonomy system impacts SMEs' ability to access bank lending at a time where sustainable and green activities are increasingly under scrutiny.

The European classification system developed to certify the greenness of business activities, commonly known as Taxonomy, is a science-based and investor-centric tool aiming at reorienting capital flows towards what can be labelled as sustainable projects. In addition, companies that fall under its scope it will be required to prove they are Taxonomy aligned.

While this regulation could be conceived as a positive instrument expected to bring more investments into green activities, it risks becoming punitive, as it penalises companies that do not have the capacity to disclose the expected information, which is the current reality facing 50% of the 22 million SMEs in Europe that are classified as single person companies.

Indeed, whether they are part of a supply chain or are undergoing the process to secure bank lending (70% of SMEs rely on bank financing in Europe), SMEs will be continuously asked to provide additional non-financial information, even if they are not requested to make taxonomy disclosures as such. As explained by a representative from the European Banking Federation, in addition to disclosing their Green Asset Ratio, banks will also need to disclose their Banking Book Taxonomy Alignment Ratio, including the extent to which they are financing environmentally sustainable activities of SMEs. As part of this new disclosure requirement, smaller companies will have to provide banks with information on their taxonomy eligible activities and their taxonomy alignment, as banks will also be interested in understanding the risk aspects of any exposure. SMEs will further be impacted by the fact that taxonomy, or its concepts, will be integrated into the different European funding instruments.

This obligation will result in multiple challenges. Taxonomy, which has been firstly developed for the financial sector, has revealed intrinsic shortcomings in terms of usability for the economy at large. Its complexity, coupled with unclear concepts, including the 'do no significant harm' criteria, which is difficult to articulate within the context of other European initiatives on sustainability, leads SMEs to become 'lost in transition'. The biggest barriers to greening SMEs are the adaption costs, i the uncertain European regulatory landscape and the lack of ESG skills.

It is important that taxonomy remains a tool for investment in the Green Deal transformation. Attention should be put on how this instrument will work for the whole economy, as it should not become a punitive instrument. Consistency should also be ensured among the different reporting layers to avoid overlaps and contradictions.

The panellists therefore urge the European Commission to adopt voluntary reporting standards as soon as possible to help SMEs play their crucial role in the sustainable transformation in a cost efficient way, and assist them by developing some kind of certification process that companies can undergo in order to demonstrate their alignment with Taxonomy. They also invite the Commission to simplify Taxonomy, stressing the importance of education to help entrepreneurs and board members embrace the topic. During the session, the speakers shared some guidance to help board members navigate the transition:

- Board members should direct their companies towards new opportunities while creating value for the shareholders and the wider society;
- Board members should acknowledge that the financing of the company is different and should not be a topic circumvented to CFOs and CEOs;
- Taxonomy has the potential to be a key, powerful tool for change and should not be approached as a mere compliance exercise;
- New business models should be investigated and will enable companies remain competitive throughout the green transition;
- Companies' ESG efforts are condemned to fail if they are not embedded in the business model and strategies;
- Transparency and accountability should not be overlooked. Any information that could be disclosed without undermining the company's competitiveness should be made public. It is important to safeguard business strategic information.

Speakers: Alexandre Affre (*Deputy Director General, Business Europe*), Rytis Ambrazevičius (*Board Member, ecoDa, President, Baltic Institute of Corporate Governance*), Denisa Avermaete (*Policy Adviser, European Banking Federation*), Dr. Roger M. Barker (*Director of Policy and Governance, UK Institute of Directors*), Maud Gaudry (*Director, Mazars Paris*), Gerhard Huemer (*Economic Policy Director, SMEunited*).

The recording of this webinar is available [here](#).

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