Italian SMEs and sustainability reporting

Forum per la Finanza Sostenibile

BPER Banca is the parent company of the BPER Group, the third largest banking group in Italy in terms of total assets, deposits and loans; through investee companies or joint ventures, it is active in all the main market segments.
The Group is present today in 19 Italian regions, with a network of 1,800 branches throughout the country, as well as a branch in the Grand Duchy of Luxembourg.
For years, BPER Banca has embarked on a process of integrating sustainability into its corporate values, with the aim of creating benefits for all of its stakeholders in the medium-long term. The Sustainability Report, the 2019-2021 Business Plan and the 2020-21 Sustainability Plan are a concrete demonstration of this, while the assessments obtained from the rating agencies are a confirmation.
BPER Banca pursues sustainability objectives based on the Social Development Goals (SDGs) identified by the United Nations (UN) and, since 2017, adheres to the UN Global Compact, sharing its principles: integrity and sustainability are in fact the founding values on which the BPER Group bases its work in order to create long-term sustainable wealth for its stakeholders and for all the geographical areas in which the Group is present.
The bank wants to be more and more a partner for its customers, providing solutions and skills to accompany households and businesses in the design and implementation of growth and improvement projects with a view to sustainability and to support the transition to a low-carbon intensity economy.
BPER Banca is a shareholder in Banca Etica and Etica SGR, of which it is the first placement bank by volume of funds sold. Arca Fondi SGR, a member of the BPER Group, has adhered to the Principles for Responsible Investment (PRI) and offers Environmental, Social and Governance (ESG) products.

Leveraging on €577 billion in assets, more than 1,500 skilled asset managers and investment specialists and a global presence over 15 countries worldwide*, Generali Investments** is one of the largest asset managers in Europe. Its business model is based on a platform of asset management firms***, bringing together existing and new, highly-specialized investment skills. This allows Generali Investments to increase the investment opportunities for its clients, both in liquid and illiquid asset classes, developing innovative and sustainable solutions, generating enduring value over the time. Generali Group, nonetheless, has been committed to sustainability since 2006, a commitment that Generali Investments fully shares, applying strict ESG (Environmental, Social and Governance) criteria over the asset under management. At an operational level, principles, processes and criteria have been drawn up to identify, evaluate and ensure continuous monitoring of the issuers that are most exposed to ESG risks. These efforts are also supported by the companies of the platform which, while preserving their autonomy, share the Group's vision, applying responsible approaches to their investments via proprietary and distinctive ESG methodologies, believing that the focus on socially responsible investing and the application of ESG guidelines will translate to better, more sustainable societies.

*Source: Generali Group, IPE (data include Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Real Estate S.p.A.), June 2021 ** Generali Investments is a trademark of Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Investments Luxembourg S.A. and Generali Investments Holding S.p.A. (GIH) *** Through GIH which holds at least a majority stake in each boutique.

Intesa Sanpaolo has a long and consolidated commitment in sustainability's field, a competitive strategic asset that is an integrated part of the corporate mission and one of the pillars of the Business Plan.
At the heart of Intesa Sanpaolo's sustainability strategy is the desire to guarantee a future for generations, through the conscious exercise of its role as an engine of sustainable behaviour among customers, also with reference to businesses world.
To this end, the Bank is increasingly integrating ESG criteria into its risk management systems and is developing an increasingly complete offer of dedicated investment, financing, insurance and consulting products, including an innovative range of training programs, in the catalogue and tailor made, with extensive use of digital technologies.
In supporting the sustainable transformation of SMEs, the new Sustainability Loans (S-Loans), launched by the Group in 2020 with a plafond of €2 billion, are of particular importance. These are loans dedicated to supporting innovative investments, with a reward mechanism on the rate upon the achievement of 2 ESG objectives, monitored annually. In 2021 the offer was expanded with two new S-Loan lines: S-Loan Diversity, for investments aimed at facilitating and improving female participation in the community and female employment in the company, and the implementation of corporate policies for gender equality, corporate welfare programs for female employees; S-Loan Climate Change, assisted by a specific "Green" SACE guarantee, for investments in contrasting and mitigating the effects of climate change and reducing the environmental impact.
Intesa Sanpaolo's commitment is over the long term, because companies capable of investing in the sustainable transformation of their business will be the winning companies in the coming decades.

TABLE OF CONTENTS

1. Introduction

Small and Medium Enterprises (SMEs) are **key players in the Italian economy**, accounting for 41% of all sales generated in Italy, 33% of the private sector workforce and 38% of the added value of the country[1].

The *Italian SMEs and sustainability* survey, published by the Italian Sustainable Investment Forum (ItaSIF) in collaboration with BVA Doxa (2020), showed that in recent years, small and medium enterprises proved to be **more conscious of ESG (Environmental, Social and Governance) themes**. This notwithstanding, financial players find **limited available information on the sustainability policies and performances** of the SMEs; and if the data is available, it is often incomplete and not comparable.

This can be ascribed to both the absence of specific regulatory obligations relating to sustainability reporting[2] and the organizational and managerial specificity of the SMEs, as well as to fewer economic and human resources available to them[3].

As such, **the disclosure of accurate and comparable ESG data would be beneficial for both companies** (as it would enhance their value in the eyes of investors and other stakeholders such as clients, suppliers and employees) **and investors** alike, possibly steering the latter towards those companies that are able to mitigate risks and pursue the United Nations Sustainable Development Goals (SDGs). As a matter of fact, there is a well-established consensus in the literature of the **financial relevance of sustainability aspects**, in terms of risk-reduction and contribution towards generating economic and financial value.

1.1. GOALS AND METHODOLOGY

This survey, conducted by ItaSIF in collaboration with ALTIS Università Cattolica, deep-dives into the sustainability reporting practices of Italian SMEs[4]. It has two goals: a) **identifing the reasons for, and benefits of, ESG reporting** and, b) **examining the criticalities and types of support and incentives** that can help overcome them.

This survey included **two stages**. In the first stage, the themes covered in the survey were discussed in an **online focus group** with 8 SMEs (of different sizes and from a variety of sectors and geographies) and 3 financial players. The discussion focused on the sustainability reporting journey of companies, analyzing reasons, perceived benefits and criticalities. Participants also reported existing or new institutional investors' holdings in their equity capital.

These themes were subsequently explored through an **online structured questionnaire to 240 companies**, selected from the ALTIS database and from among the attendees to events relating to the themes addressed in the survey. Some SMEs that issue a sustainability report were contacted directly to ensure minimum requirements to process statistical data.

1.2. SAMPLE

A total of **105 answers** were collected: this enabled statistical generalization for most of the topics covered in the survey. The majority of companies included in the sample are small-sized, with sales up to €10 million (61 SMEs) and up to 50 employees (65 SMEs)[5]. Most companies in the sample (71 in 105) adopt a business-to-business model, supplying other companies in the downstream part of the supply chain (Figure 3).

With respect to the geographical distribution (Figure 4) of the SMEs, the 70 companies based in north-western and north-eastern Italy make up two-thirds of the sample; they are slightly over-weighted compared to their proportion shown in the (2020) ISTAT census[6].

In terms of **equity capital composition**, **30% of SMEs** reported that **at least one institutional investor** (i.e. banks, insurers, pension fund investors and equity funds managers or private equity funds managers) is part of their capital structure.

1. Excluding micro-enterprises (source: Politecnico di Milano, Osservatorio PMI).

2. For now, the SMEs are excluded from the scope of application of the Non-Financial Reporting Directive (NFRD) and of Legislative Decree 254/2016, which only applies to large companies on equity and bond markets and to large financial enterprises. The SMEs may comply on a voluntary basis. Under the proposed new Corporate Sustainability Reporting Directive (CSRD), the SMEs present on regulated markets might be included among the companies required to publish a sustainability report.

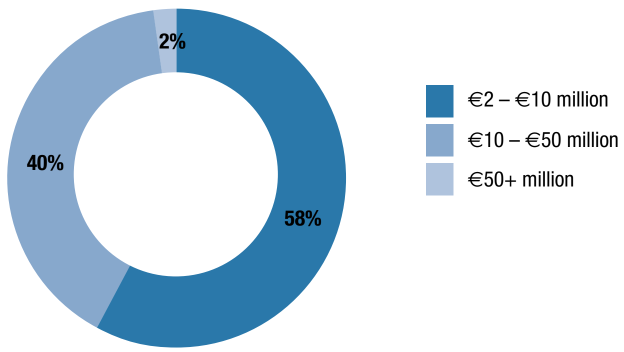
3. Indeed, simplified requirements and models are being studied for SME sustainability reporting (EFRAG 2021).

4. The survey is the first in Italy to cover this theme. Among the surveys of specified sectors, the one by Becchetti e NeXt 2020 is worth mentioning.

5. Data relating to turnover and number of employees refer to the 2020 financial year.

6. According to the preliminary data from the 2019 ISTAT permanent census of companies, 53% of Italian SMEs are based in northern Italy.

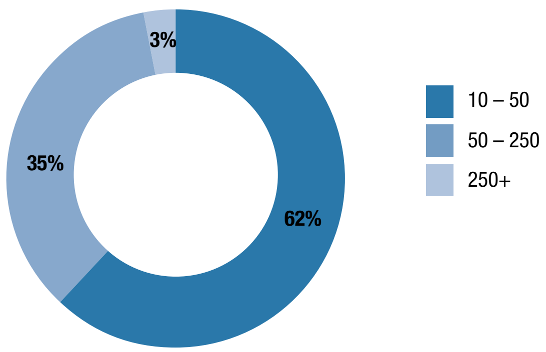
FIGURE 1. Breakdown of SMEs by sales



Baseline – whole sample (105)

Source: ItaSIF and ALTIS

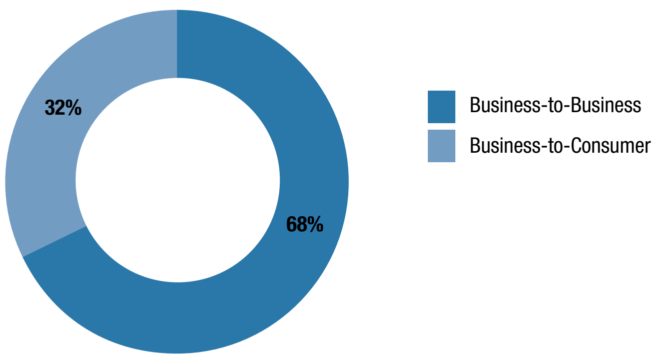
FIGURE 2. Breakdown of SMEs by number of employees



Baseline – whole sample (105)

Source: ItaSIF and ALTIS

FIGURE 3. Breakdown of SMEs by prevailing business model



Baseline – whole sample (105)

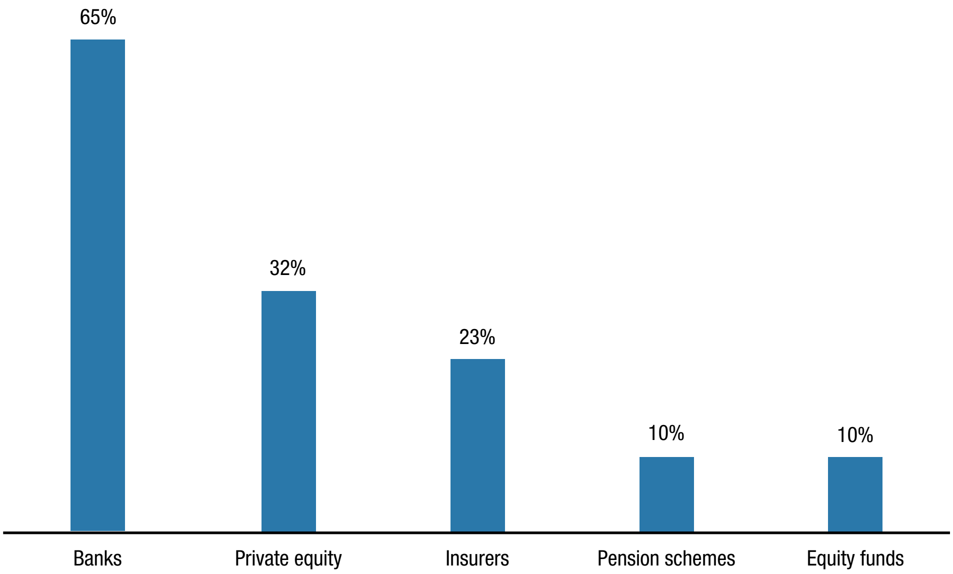
Source: ItaSIF and ALTIS

FIGURE 4. Breakdown of SMEs by geography

Baseline – whole sample (105)

Source: ItaSIF and ALTIS

FIGURE 5. Who invests in the equity capital of SMEs



Multiple-answer question
Baseline – SMEs invested in by at least one institutional investor (31)

Source: ItaSIF and ALTIS

2. Findings

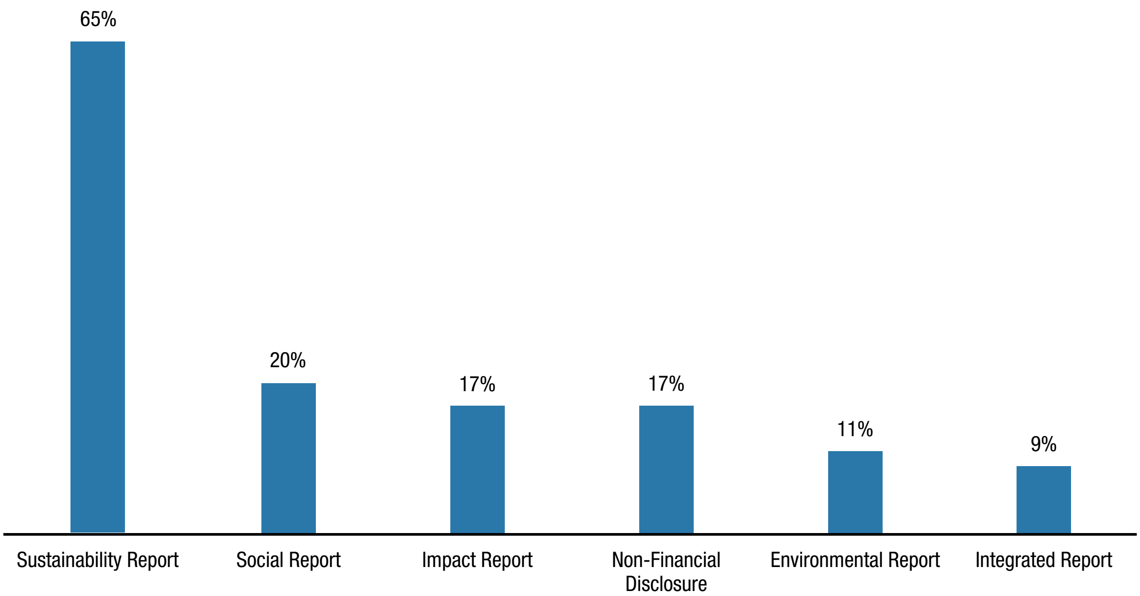
2.1. REPORTING PRACTICES

Almost half of companies (44%) reported that they issue a sustainability report. This proportion appears to be overestimated compared to the findings of previous surveys of the spreading of this practice domestically[7]. In fact, the mismatch arises from the methods used for sample selection (see §1.1.).

The proportion of companies that report on ESG themes is higher (**55%**) among the **companies invested in by institutional investors**. This proportion appears to be positively correlated to sales, from 26.7% in the €2-10 million group up to 64.3% in the €10-50 million group, in line with the findings of other surveys (ISTAT 2020b).

65% of the SMEs that publish a non-financial report issue a **sustainability report**. Moreover, some reporting practices are restricted to specified areas of sustainability: indeed, 14 companies publish a social or environmental report. Finally, a non-negligible number of SMEs publish an impact report due to their qualifying as Benefit Companies or B Corp (8 companies) or a Non-Financial Disclosure (NFD) under Legislative Decree 254/2016, either on a voluntary basis or as part of Group reporting (8 companies).

FIGURE 6. Sustainability reports published or being drawn up



Multiple-answer question
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

One third of the sample (33%) reported a **track record of at least three years of sustainability reporting** (starting from 2018 or earlier). The remaining two-thirds started the process between 2019 and 2020 or in 2021, confirming the SMEs' growing focus on sustainability. This dynamism is even more remarkable, if one considers that **the period that saw the highest increase in ESG reporting practices was during the COVID-19 pandemic**, when SME sales and investments declined sharply (Cerved 2020). However, 4 companies that published their first ESG report by 2018 did not continue to do so thereafter.

7. According to the survey conducted by ItaSIF and BVA Doxa (2020), only 7% of companies reported publishing ESG disclosures.

2.2. REASONS FOR REPORTING

The questionnaire analyzed **the reasons why the SMEs started to report on their sustainability performance or continue to do so**, measured on a scale of 1 to 4 (Figure 7). They prioritize **internal** reasons: indeed, they view the sustainability report as an effective tool to express their Corporate Social Responsibility (CSR) principles (3.7 out of 4) and to collect useful information in order to define ESG performance improvement goals (3.5). These are followed by reasons relating to strategy and competitiveness (3.4), such as the intention to improve their reputation and their attractiveness for clients and investors (3.4).

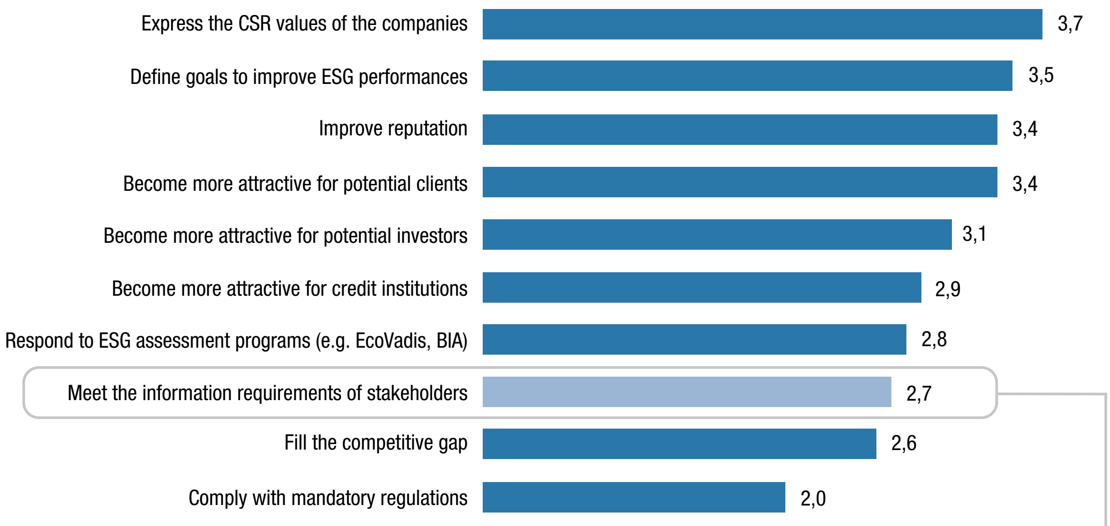
Overall, the need to meet the specific **information requirements of stakeholders** is not a priority and is slightly above the mean value of the scale (2.7). Still, on the front of stakeholders, the **owners** (3.0) have shown the strongest drive, which confirms the central role of the owners of SMEs. Other reasons given were: the market (industrial clients 2.9 and final consumers 2.8), employees (2.9) and the many components of the financial community, first of all analysts (2.9) and investors (2.9) (Figure 8).

Interestingly, **the willingness to attract new investors and lenders and the response to the requests for information from the financial community are significantly more relevant for the companies in which institutional investors are invested** (+16% and +21% respectively). This evidence is consistent with the findings of the focus group on the importance, for investors, of having access to reliable sustainability data that is as detailed as possible.

Instead, the demands coming from the traditional stakeholders such as local communities (2.5), the Non-Profit Sector (2.1) and public institutions (2.5) are less pronounced. Likewise, the information requirements from entities that might become more important in the future such as trade associations (2.3) and insurers (2.2) are not a priority.

As regards **the companies that have issued a sustainability report since 2018**, a comparison between initial and current reasons shows **an increasing relevance of the needs of the owners and the top management** (+5.5%). This suggests a growing awareness of the strategic value of ESG reporting. Finally, these companies have shown slightly more willingness, though with a weak statistical significance, to enhance their attractiveness for potential investors (+5.3%). This can indicate a gradual shift of the focus away from a "traditional" view of social reporting towards disclosure that is more representative of the levels of exposure to ESG risks and opportunities.

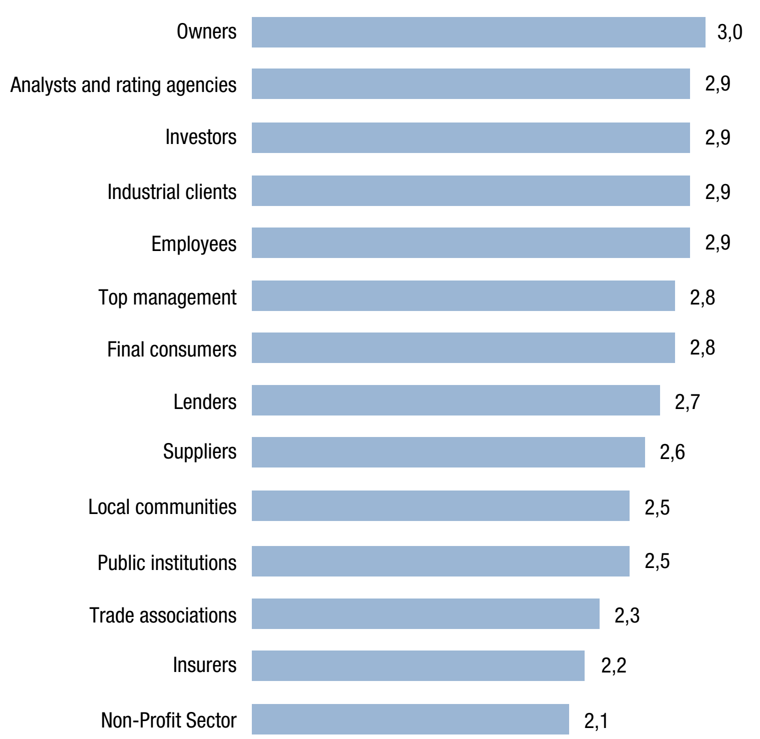
FIGURE 7. Relevance of the reason for sustainability reporting



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

FIGURE 8. Relevance of the information requirements of the different stakeholders



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

2.3. REPORTING FRAMEWORK

Over two thirds of the companies that issue a sustainability report adopt the GRI (Global Reporting Initiative) Standard, alone or in combination with other standards (Figure 9), with 68% of these opting for core compliance and only 7% for comprehensive compliance, in line with data on Italian NFD (Deloitte and University of Pavia 2021).

Other frameworks to which the SMEs surveyed refer include: SASB (Sustainability Accounting Standards Board) standards (14% of reports); relating to B Corp-certified companies the B Impact Assessment (9% of reports)[8]; the IIRC International Integrated Reporting Framework (7% of reports). Instead, **the adoption by SMEs of reporting models focusing on climate risks and impacts** (Task Force on Climate-Related Financial Disclosures - TCFD and CDP ex Carbon Disclosure Project) **is still in its infancy.**

FIGURE 9. Adoption of non-financial reporting frameworks and standards: comparison between respondents and the Italian companies that are subject to the obligations of Legislative Decree 254/2016

Reporting framework / standard	Adoption in the sustainability reports published by the companies included in the sample	Adoption in the NFD of Italian companies
GRI Standard	70%	100%
of which Core option	68%	73%
of which Referenced option	25%	24%
of which Comprehensive option	7%	3%
SASB Standard	14%	2%
B Impact Assessment	9%	n.a.
IIRC	7%	7%
TCFD	7%	10%[9]
CDP	2%	n.a.

Baseline – respondents that issue a sustainability report (46) vs Italian companies subject to the obligations of Legislative Decree 254/2016[10]

Source: ItaSIF and ALTIS

In its recent preparatory report for the definition of a new European sustainability reporting standard, the European Financial Reporting Advisory Group (EFRAG) examined the ability of existing frameworks to suit the specificity of SMEs (EFRAG 2021).

When asked, interviewees reported that they deem the frameworks to be slightly more suited to the characteristics of large companies (2.9 out of 4) as compared to SMEs (2.7). In general, the survey showed a **moderate level of satisfaction with the ability of the frameworks adopted to provide corporate management and stakeholders with relevant ESG information** (Figure 10).

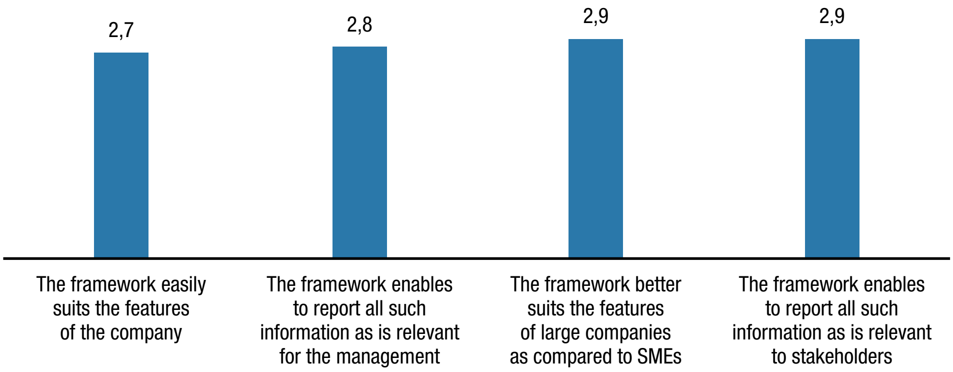
As compared to the other frameworks taken as a whole, the GRI Standards received a statistically-significant slightly unfavorable evaluation as regards their ability to suit the specificity of SMEs (-9.0%) and the appropriateness of reporting all such ESG information as is relevant for the management (-8.8%).

8. Italian B Corps total 120, mainly SMEs, out of 4,000 certified companies globally (Nativa 2021).

9. 2019 NFD data.

10. Source: Deloitte and University of Pavia 2021.

FIGURE 10. Evalutation of the adequacy of the reporting framework adopted



Mean value of the answers given on a scale from 1 (do not agree at all) to 4 (very much agree)
Baseline – SMEs that issue a sustainability report (46)

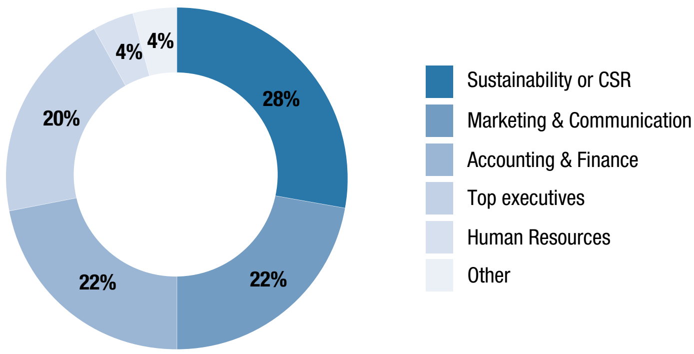
Source: ItaSIF and ALTIS

2.4. FUNCTION IN CHARGE OF THE REPORTING PROCESS

The reporting process is primarily coordinated by the Sustainability or CSR function, though less so than in the companies subject to Legislative Decree 254/2016, many of which have dedicated functions[11]. The Marketing & Communication and Accounting & Finance functions as well play a key role and, differently from large listed companies, top executives directly coordinate the reporting process in SMEs (Figure 11).

59% of respondents rely on the support of advisors to issue their report, which confirms their growing awareness of the importance of ESG themes and the need for specific skills in this regard. Only a (relevant) minority **(39%) resort to assurance by an accredited entity**.

FIGURE 11. Corporate function that coordinates the sustainability reporting process



Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

11. According to a CSR Manager Network (2020) survey, in 68% of cases the reporting process is coordinated by the Sustainability or CSR function.

2.5. MATERIALITY ANALYSIS

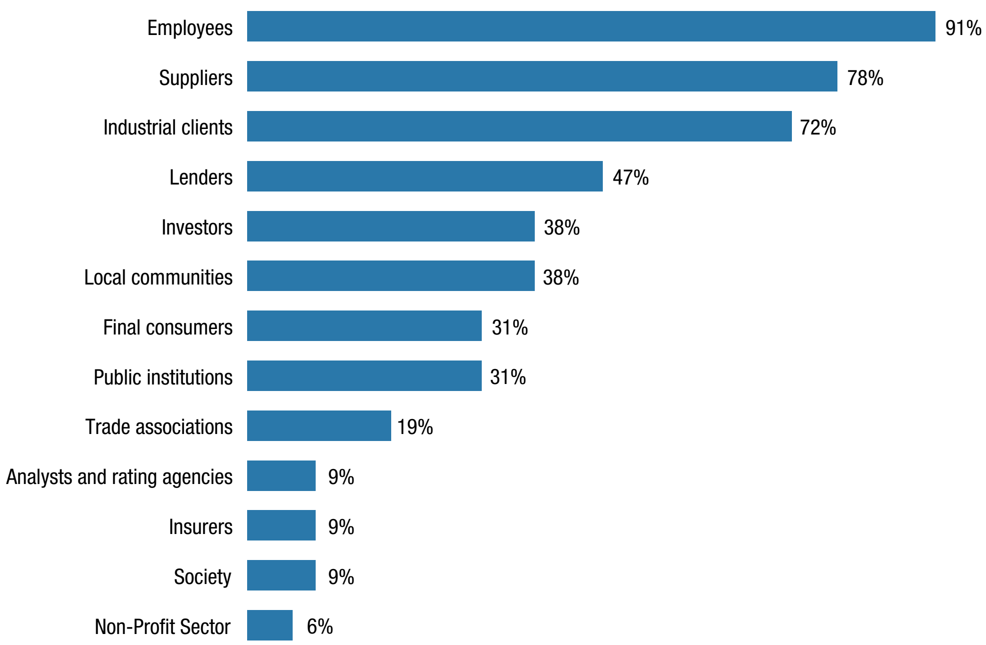
70% of the companies that issue a sustainability report carried out a materiality analysis. The GRI-Standard-compliant principle of impact materiality largely prevails (56%); in 31% of cases it is combined with the principle of financial materiality to enable investors and lenders to analyze the impact of ESG factors on the creation of economic value.

In nearly all cases (96%), at least one group of stakeholders was engaged in the materiality analysis. Employees are the group most frequently engaged (91%), followed by suppliers (78%) and B2B clients (72%) (Figure 12). Interestingly, the proportion of suppliers is in striking contrast to the little importance attached to the information requirements from the supply chain (Figure 8).

Instead, engagement of **lenders (47%) and investors (38%)** occurs way less frequently. Interestingly, however, these two groups are more often engaged by those companies that view the information requirements of these players as being more relevant (investors: +24.5%; lenders: +23,5%). This, in turn, correlates with investors' equity stakes in the capital of the companies (§2.2.). Such evidence confirms the existence of a **virtuous circle between openness to new sources of capital and active engagement with the financial community**.

Poor engagement of final consumers (32%) clashes with the relevance of their information requirements (2.8 on a scale of 1-4, Figure 8) and can be ascribed to the methodological and operative complexity of consulting them.

FIGURE 12. Stakeholder engaged in the materiality analysis



Multiple-answer question
Baseline – SMEs that issue a sustainability report and that have carried out the materiality analysis (32)

Source: ItaSIF and ALTIS

2.6. CONTENTS OF REPORTING

83% of companies cover at least one social theme in their sustainability reporting, 78% report on the environment and 74% on governance. While this is in line with prior surveys of ESG reporting practices of listed mid & small caps (Politecnico di Milano and Intermonte 2020), it is in contrast with the evidence on the spreading of sustainability practices among SMEs, with a slight prevalence of actions relating to the environment (ItaSIF and BVA Doxa 2020).

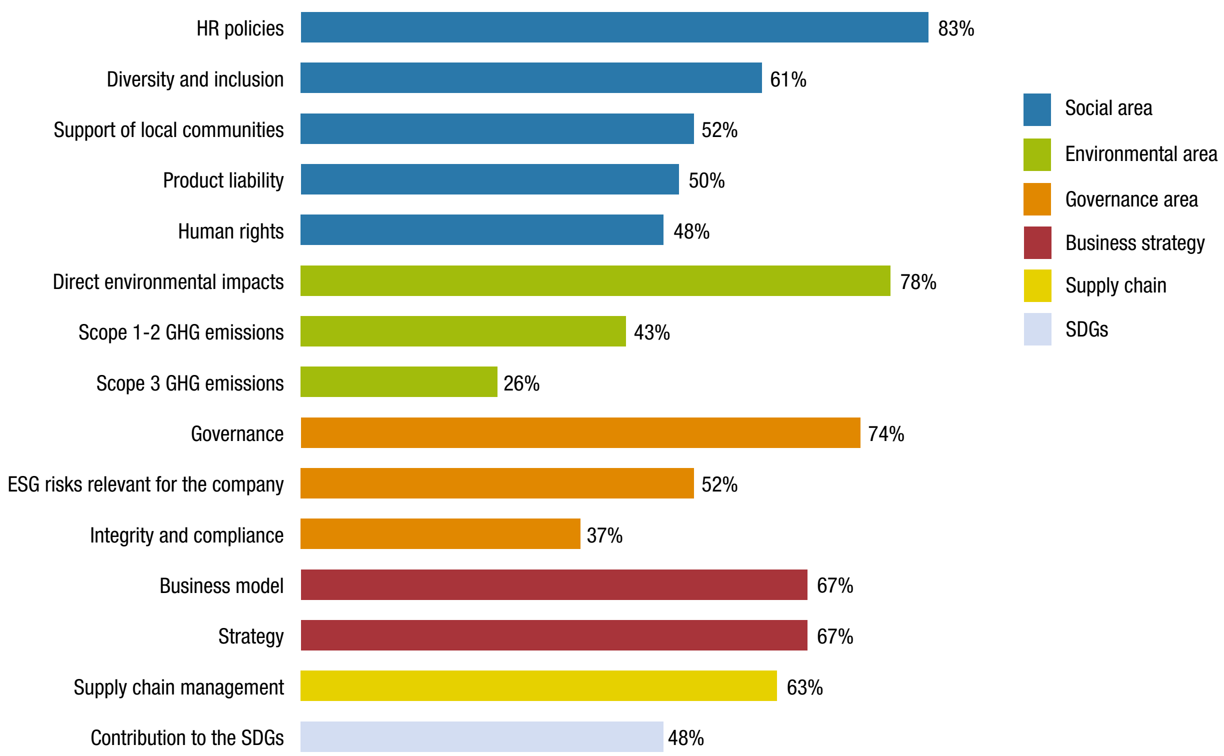
Disclosure is less frequent on such cross-cutting areas as business strategy (67%), supply chain (63%) and contribution towards achieving Sustainable Development Goals - SDGs (48%). Over half of interviewees (52%) report on ESG risks that are relevant for the company (this being a mandatory requirement only for the companies subject to Legislative Decree 254/2016).

In the social sphere, the theme most frequently reported on is **human resources policies (83%)**, while other aspects appear to be clearly under-disclosed, with relatively low percentages in respect of product liability (50%) and human rights (48%). Reporting on human rights, arguably SMEs are impacted by the methodological complexity of implementing the processes of identification and assessment of adverse impacts[12].

In regard to the **environment**, differently from the studies on listed companies (Politecnico di Milano and Intermonte 2020), this survey found a **significant gap between the reporting of direct impacts** (energy, water and commodities consumption), done by 78% of companies, **and the reporting of greenhouse gas (GHG) emissions** (done by as little 43%). This seems to indicate a still limited awareness of the demand for more activism, including by SMEs, on the front of countering climate change, besides the still heterogeneous methodologies used to detect and account for emissions.

Related to **governance**, a general description of the corporate governance structure (74%) prevails over reporting on the specific aspects of business integrity and regulatory compliance (37%).

FIGURE 13. Topics covered in the sustainability report



Multiple-answer question
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

12. The processes of assessing and offsetting adverse impacts on human rights, provided for under the Guidelines for Multinationals of the Organization for Economic Cooperation and Development (OECD) and under the United Nations Guiding Principles on Business and Human Rights, are not easily accessible to the SMEs; such processes should be appropriate to their size (as expressly recognized by item 14 of the Guiding Principles). The Standard Human Rights Topic review, initiated by the Global Reporting Initiative, is expected to give useful guidance on this point. For more information: http://bitly.ws/h5XX

2.7. BENEFITS OF REPORTING

As perceived by respondents, **stakeholders are not interested in the sustainability reports published by SMEs** (2.7 on a scale of 1-4), also because such reports might fail to fully meet the information requirements of a variety of players (§2.2.).

In addition to reputational benefits, the SMEs surveyed believe they can obtain **limited benefits** from non-financial reporting **in terms of onboarding new clients or access to a fast track for securing loans and investments**. The latter is also linked to the offering of sustainable investment products and services which, as perceived by the SMEs, are still under-disclosed and underpromoted by the Italian banking system (ItaSIF and BVA Doxa 2020). Besides, the survey found a moderate consensus on the contribution of sustainability reporting towards improving corporate risk planning and management processes (Figure 15).

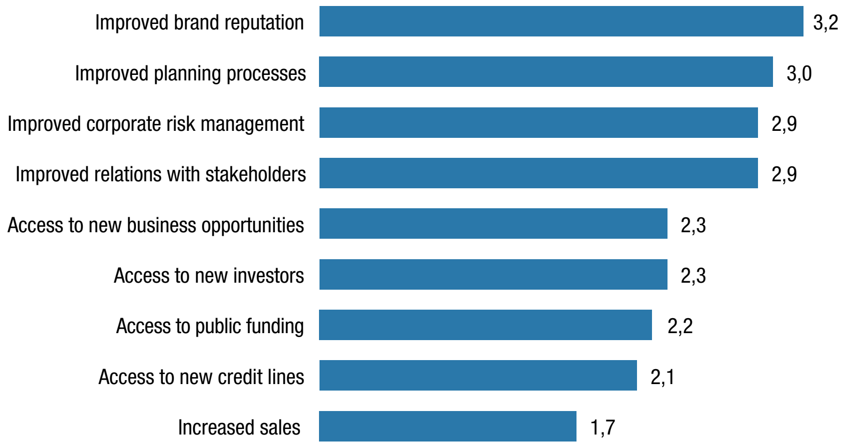
The maturity of the reporting journey has limited impact on the SMEs' perception of the benefits derived from ESG reporting. Indeed, the significant positive gap recorded by the companies that published their first sustainability report by 2018 versus those that started doing so later only refers to access to new credit lines (+15.0%) and improvement of planning processes (+8.25%).

FIGURE 14. Interest of stakeholders in sustainability reports, as perceived by companies

Mean value of the answers given on a scale from 1 (very low) to 4 (very high)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

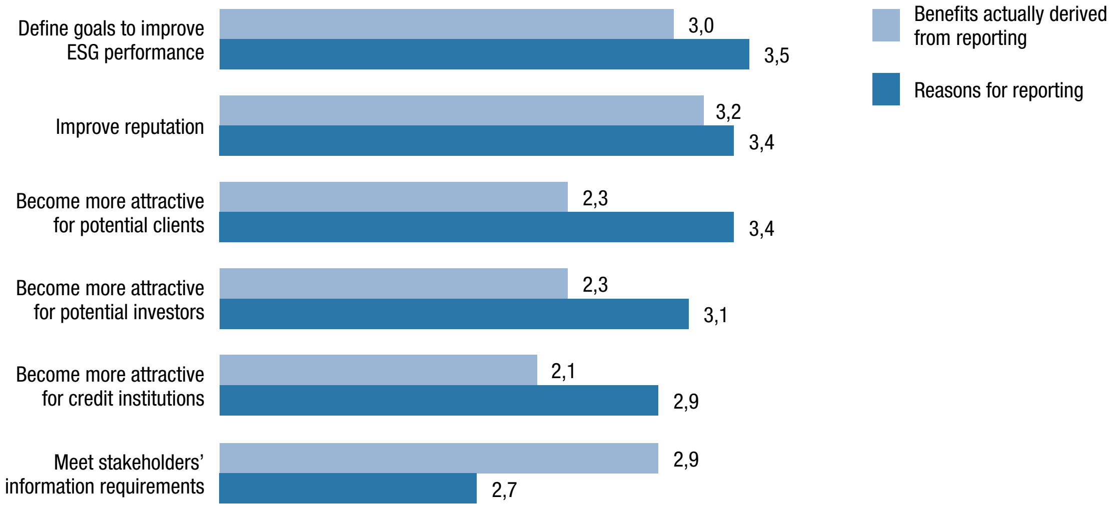
FIGURE 15. Perception of the benefits derived from sustainability reporting



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

FIGURE 16. Comparison of *reasons for* and *benefits of* reporting



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

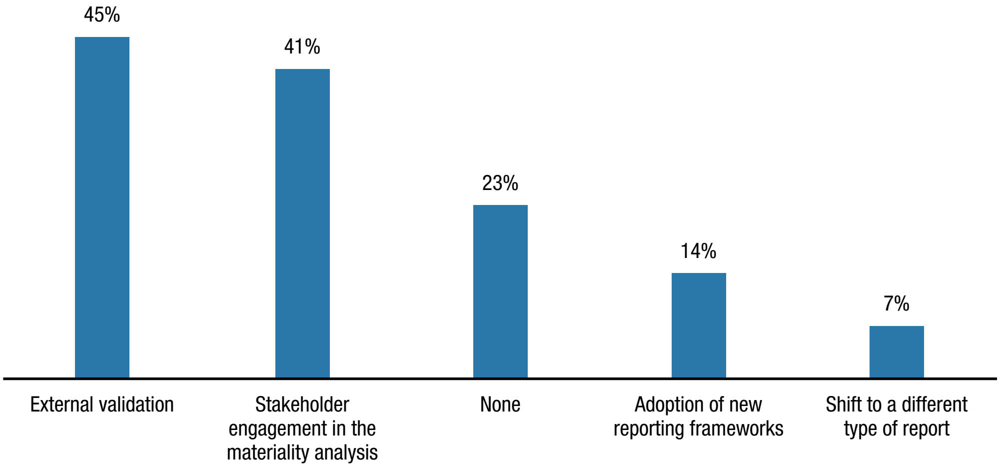
2.8. EVOLUTION OF REPORTING

77% of the companies that started reporting defined **goals to improve their reporting practices for financial year 2021 and 2022**.

Nearly half of the sample (45%) intend to obtain external assurance for their sustainability report or foresee a more comprehensive stakeholder engagement in the materiality analysis, thus one can conceivably expect that investors and lenders will be increasingly engaged.

The 7 companies that report their intention to adopt a new reporting framework do not currently follow the GRI Standards. This may indicate their intention to align with the dominant framework. Finally, 3 companies report their intention to publish a sustainability report to replace the current one.

FIGURE 17. Goals for financial year 2021-2022



Multiple-answer question
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

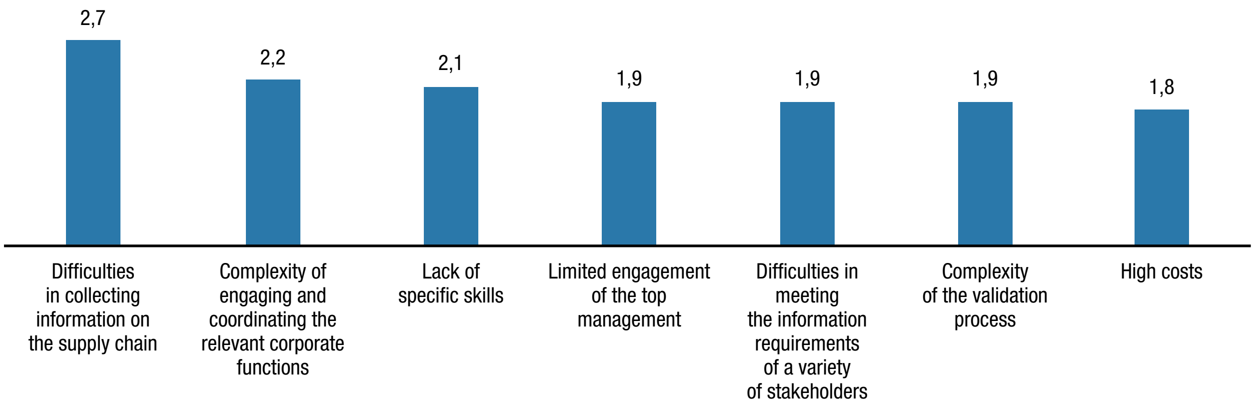
2.9. THE SUSTAINABILITY REPORTING JOURNEY: CRITICALITIES

Based on the literature and the findings of the focus group discussion, **the companies that have gained direct experience** in drawing up a sustainability or ESG report (Figure 18) do not see **particularly significant potential criticalities**. This might downsize the actual magnitude of the obstacles perceived by the companies that consider starting to report (§2.11.), confirming a positive benefits-to-criticalities ratio.

The only criticality above the mean value is the complexity of collecting information on the supply chain: this seems to be the reason for the poor spreading of reporting on this area (§2.6.). It may be that the SMEs are adversely impacted by their dependence on the information made available by same-size or smaller suppliers and sub-suppliers (which do not commonly report on their ESG performance) or, conversely, by larger suppliers, with which they have limited bargaining power.

As regards the potential criticalities relating to the application of the reporting framework, companies did not report relevant obstacles (with their judgement always being lower than 2.5 on a scale of 1-4; Figure 19).

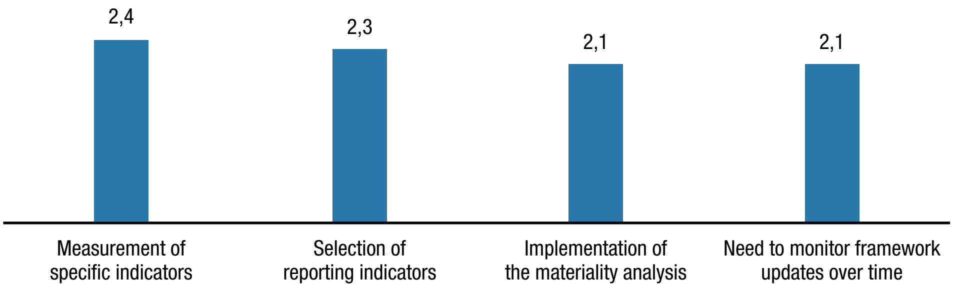
FIGURE 18. The sustainability reporting journey: criticalities



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report 46)

Source: ItaSIF and ALTIS

FIGURE 19. Application of the reporting framework adopted: criticalities



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

2.10. INCENTIVES FOR REPORTING

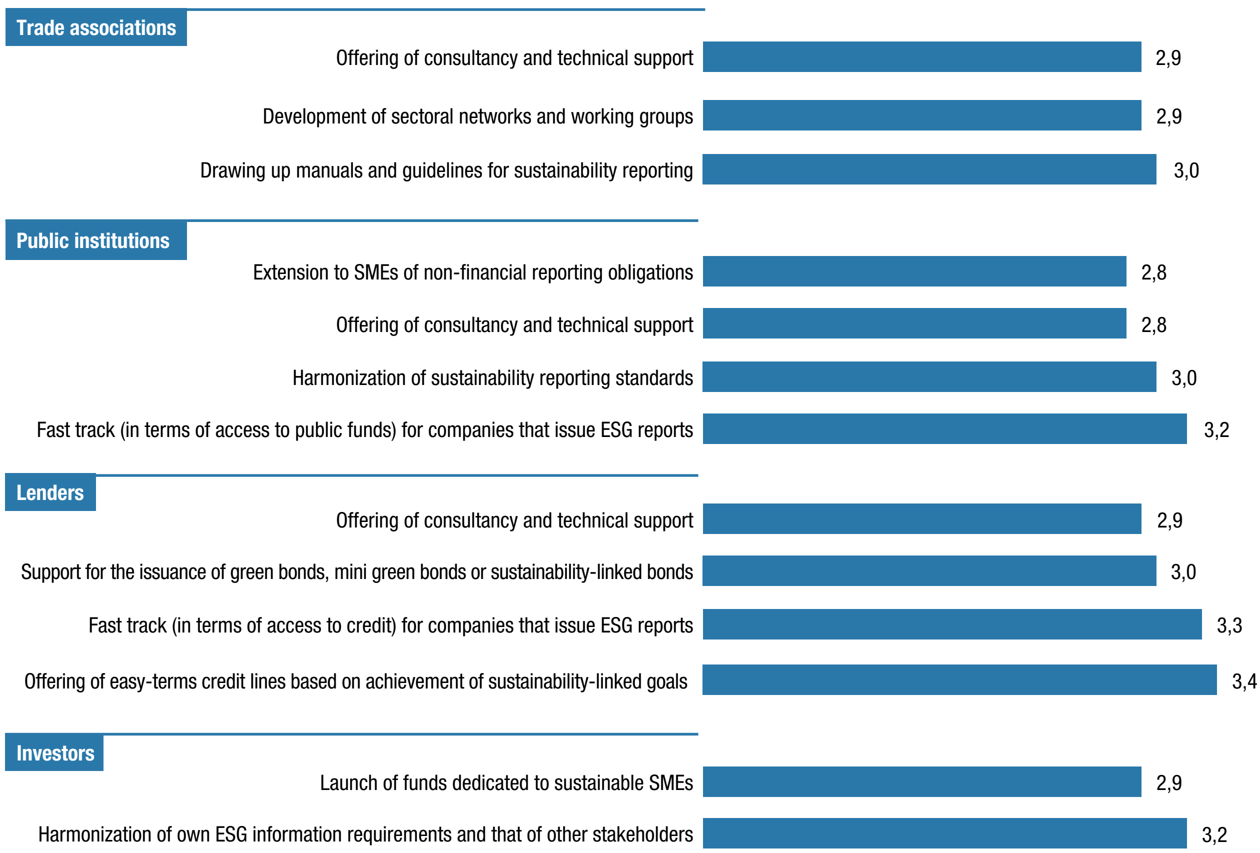
Overall, the companies that report on their sustainability performance moderately welcome the initiatives that public and private stakeholders could take in order to encourage a greater spreading of ESG reporting (Figure 20). Interestingly, in this case, **the consensus on the potential intervention of investors and lenders is slightly higher compared to trade associations and public institutions**, which confirms the driving role that the financial community plays now and could play in the future. Among the possible actions aimed to encourage ESG reporting, **access to a fast track for securing loans and investments dedicated to the companies that issue a sustainability report** is highly appreciated. This is in line with the previous survey conducted by ItaSIF in collaboration with BVA Doxa (2020), where one third of interviewees reported that sustainable projects and companies should benefit from more financial benefits.

Further down the lane are the actions for **harmonizing existing regulatory frameworks as well as investors' and other stakeholders' information requirements**. This seems to confirm that those SMEs that started sustainability reporting recently find it somewhat difficult to meet the diverse requirements of a variety of players. This confirms the findings of the focus group discussion and seems to support the standard dedicated to the SMEs soon to be worked out by EFRAG (2021).

Technical support to SMEs, if any, is reported to be slightly less relevant, conceivably because the majority of respondents retain their existing specialized advisors (§2.4.).

Finally, interviewees do not prioritize the extension of the ESG reporting obligation. The European Commission as well, when working out the proposal for the new CSRD, did not deem it appropriate to include unlisted SMEs in the scope of application of the new regulation, based on the proportionality assessment[13].

FIGURE 20. Relevance of possible initiatives to support SMEs for sustainability reporting



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46)

Source: ItaSIF and ALTIS

13.The principle of proportionality is a fundamental principle of the European law, whereby the contents and form of the action of the EU are limited to what is necessary to achieve the goals of the treaties. This principle underlies a number of recent decisions such as the choice to exclude unlisted SMEs from sustainability reporting obligations in the new proposal of the CSRD and the definition of a voluntary reporting standard dedicated to the SMEs.

2.11. COMPANIES THAT DO NOT REPORT: REASONS, OBSTACLES AND INCENTIVES

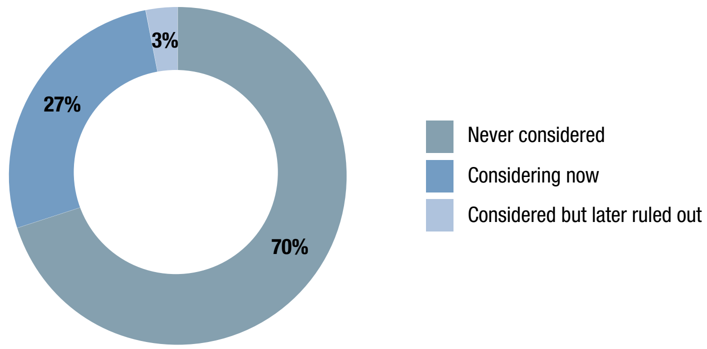
Out of the 59 companies that did not embark on the sustainability reporting journey, 18 declared that they started considering doing so (Figure 21). Underlying reasons are slightly different from those of the companies that already report on their ESG performances (Figure 22). The **search for greater attractiveness for clients** prevails, followed by enhancement of social and environmental performances, reputation and values.

The willingness to be attractive for investors and credit institutions is as relevant as for the companies that report on sustainability. Conversely, the information requirements from the financial community are less decisive (Figure 23), consistently with lesser investments by institutional investors in the equity capital of the companies examined.

The main obstacle perceived at the start of the sustainability reporting journey appears to be the **lack of specific inhouse skills for sustainability reporting** (Figure 24), more so (+15%) than in the case of companies that have gained direct experience in this regard.

The provision of **technical and consultancy support by trade associations and public institutions** is higher up on the scale of priorities of the companies that are considering to start reporting. These companies also welcome the launch of investment funds dedicated to sustainable SMEs and the negotiation of sustainability-linked credit lines. Instead, there seems to be less of an urgency about the harmonization of frameworks as well as investors' and stakeholders' information requirements, presumably because the companies with no direct experience do not do in-depth analysis of the methodology of ESG reporting.

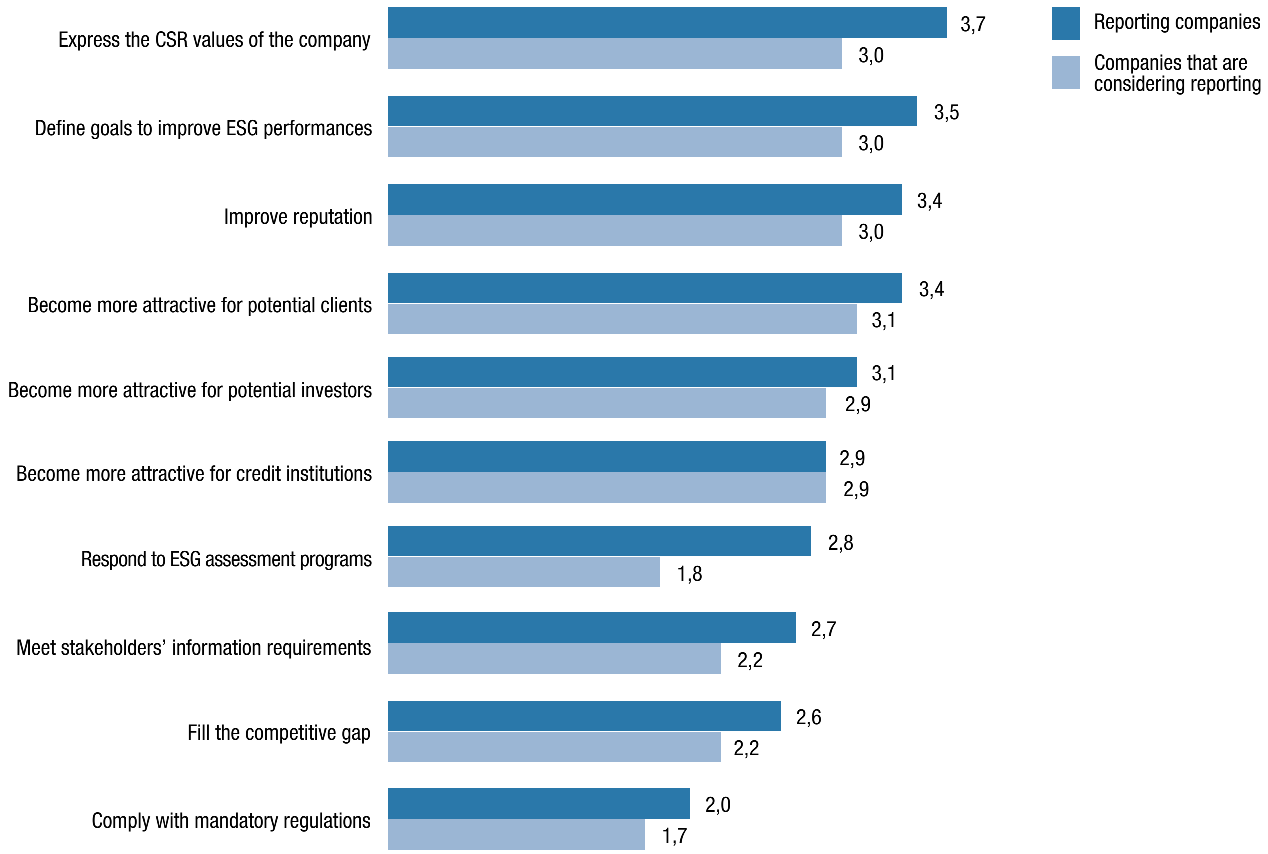
FIGURE 21. Evaluation of the start of a sustainability reporting process



Baseline – SMEs that currently do not issue a sustainability report (59)

Source: ItaSIF and ALTIS

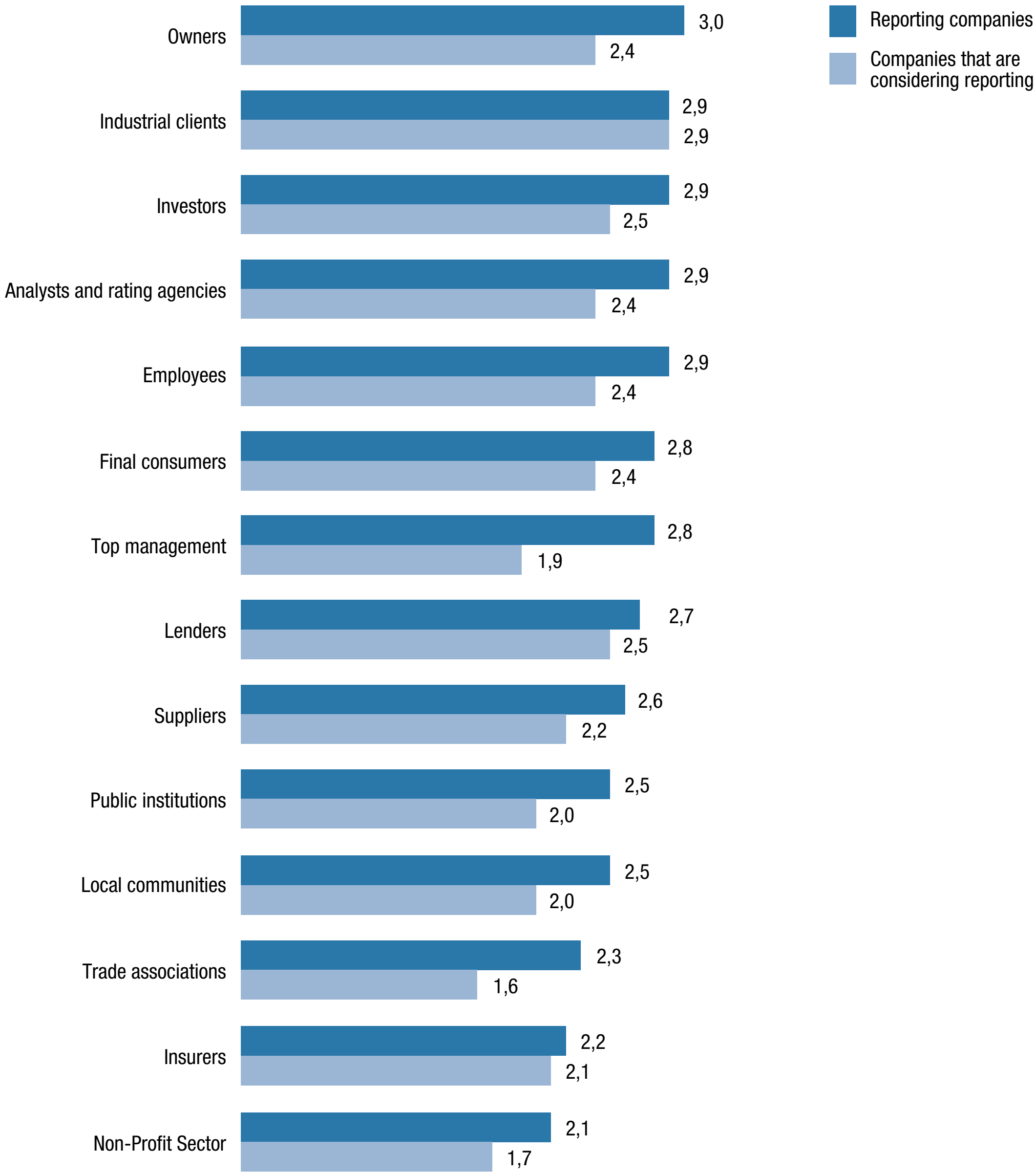
FIGURE 22. Relevance of reasons for sustainability reporting
comparison between reporting SMEs and SMEs that are considering reporting



Mean values of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability document (46) vs. SMEs that currently do not issue a sustainability report but are considering doing so (16)

Source: ItaSIF and ALTIS

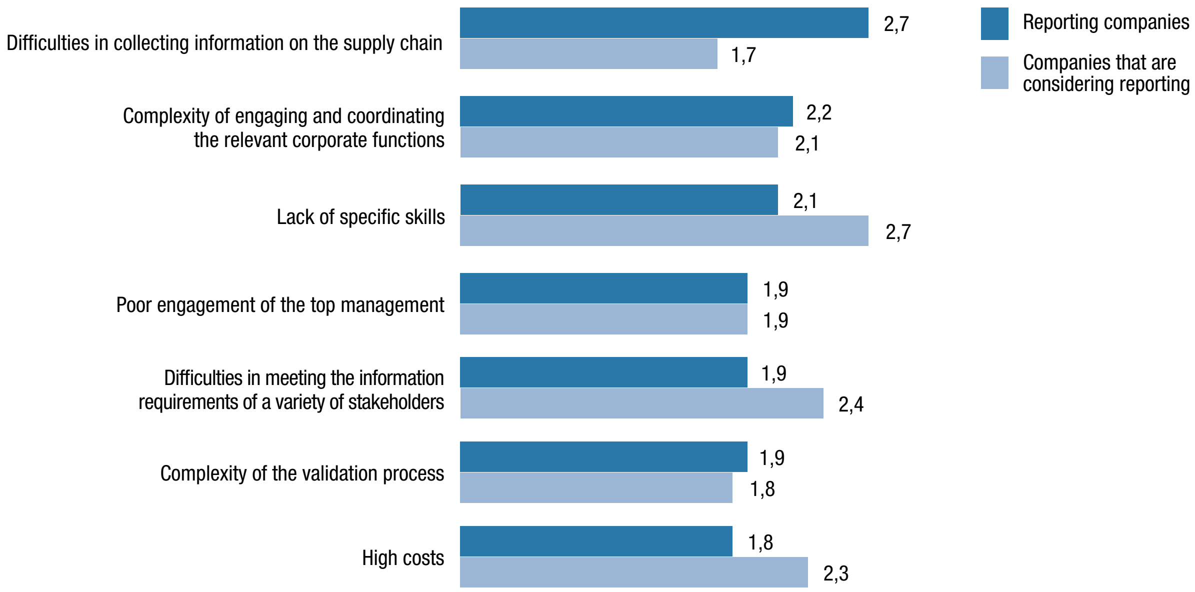
FIGURE 23. Relevance of information requirements from different stakeholders: a comparison between reporting SMEs and SMEs that are considering reporting



Mean value of the answers given on a scale from 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46) vs. SMEs that currently do not issue a sustainability report but are considering doing so (16)

Source: ItaSIF and ALTIS

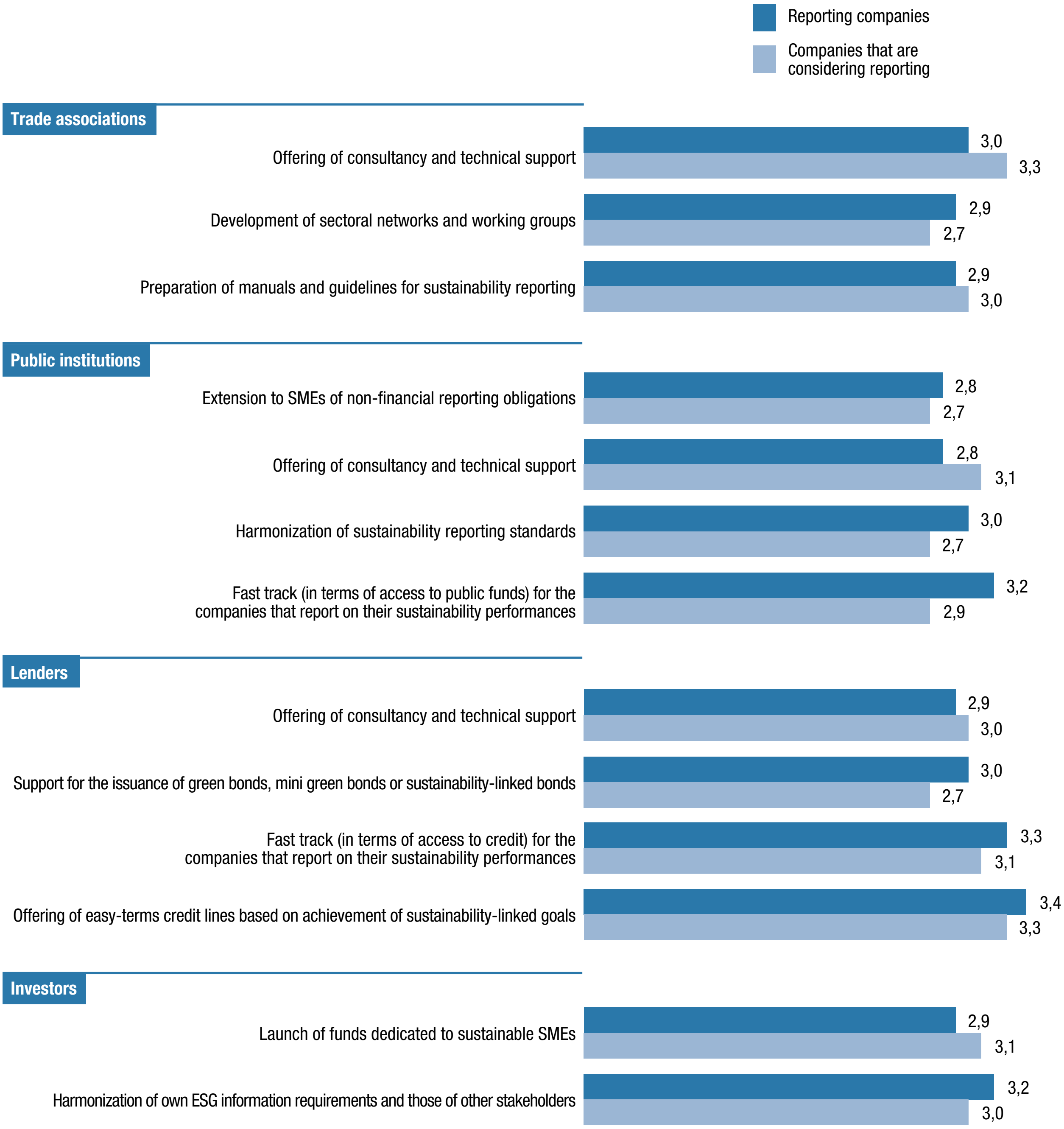
FIGURE 24. Sustainability reporting criticalities:
comparison between reporting SMEs and SMEs that are considering reporting



Mean value of the answers given on a scale from da 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46) vs. SMEs that currently do not issue a sustainability report but are considering doing so (16)

Source: ItaSIF and ALTIS

FIGURE 25. Relevance of stakeholders' initiatives to help SMEs overcome criticalities: comparison between reporting SMEs and SMEs that are considering reporting



Mean value of the answers given on a scale from da 1 (not at all relevant) to 4 (very relevant)
Baseline – SMEs that issue a sustainability report (46) vs. SMEs that currently do not issue a sustainability report but are considering doing so (16)

Source: ItaSIF and ALTIS

Closing remarks

This exploratory survey highlighted a number of ESG reporting trends in relation to SMEs. First, **sustainability reporting seems to be primarily used for "internal" CSR communication purposes**, with the information requirements of external stakeholders, in particular financial players, coming in second. SMEs that report on their sustainability performances also to meet the information requirements of financial players are often invested by institutional investors.

There is a **risk** that the limited focus on communicating sustainability outside the company, and to financial players in particular, **reduces the attractiveness of companies on the capital market**. In turn, this would initiate a vicious circle as, on the one hand, SMEs are skeptical about the efficacy of sustainability reporting in bringing about benefits in terms of capital attractiveness while, on the other hand, this skepticism nurtures their tendency to communicate sustainability internally or merely for reputational purposes, thus narrowing down their chances to ensure sustainable loans and investments.

To counter this trend, **the financial community should be more proactive**. Indeed, investors and credit institutions can encourage the development of simple and affordable sustainability reporting systems, including through adequate support for their application. In addition, the survey found ample room for promoting financial products and services targeting the SMEs and aimed to achieving ESG goals, relying on clear rules and competitive conditions as compared to the "traditional" financial offering.

Moreover, there is a tangible connection among these development trends. Indeed, both the offering of sustainable financial products (e.g., green minibonds or sustainability-linked loans) and the integration of ESG risks in credit rating assessments[14] require that material information on the company's sustainability (in terms of risks, targets and performances) to be collected in the due diligence process. This information can be the core and the starting point of more extensive non-financial reporting. In this sense, the SMEs themselves have clearly pointed out the usefulness of harmonizing, including partially, the requests for primary data with the information required under the main sustainability reporting frameworks such as GRI, IIRC and SASB.

The availability of a more comprehensive and better ESG database is the trigger point of a new, possible virtuous circle that connects **more effective SME profiling, more accurate analysis of ESG portfolio risks and the design of products that are more suitable to meet the needs and sustainable development goals of companies**. Still, this process must rely on the centrality of financial players in terms of engagement with companies. Indeed, more engagement between investors and investees would make corporate strategies geared towards sustainability and detailed ESG reporting more convenient (in economic, not just reputational terms). This might encourage hesitant SMEs to commit to start a complex, long-term journey in order to achieve ambitious sustainability goals to be reported in an increasingly effective and accurate way.

14. Also see the indications provided to supervisory authorities and credit institutions by the European Banking Authority (EBA 2020; EBA 2021). In order to comply with EBA indications and integrate ESG risk assessment in credit monitoring, many institutions have started to collect primary data on SMEs' sustainability risks and performances.

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Acknowledgements:
Special thanks to Convergenze SpA; Doxee SpA; Gruppo FOS; Italgen Spa; MCA Digital SpA; Reti SpA; Spinosa SpA; Vantea SMART SpA for participating in the focus group.

The Italian Sustainable Investment Forum (ItaSIF) is a not for profit association founded in 2001.
Its membership base is multi-stakeholder: its members are financial actors and other organizations interested in the environmental and social impacts of financial activities. ItaSIF mission is to promote the awareness and the strategies linked to sustainable investments, with the aim to encourage the integration of environmental, social and governance criteria into financial products and processes.
ItaSIF activities are divided into three main areas: research, projects and advocacy.
Within these sectors ItaSIF:

- runs research and education activities and facilitates working groups to promote best practice and contribute to the analysis and growth of sustainable investments;
- informs and advises the financial community, the media and society as a whole, on sustainable finance through the organisation of communication campaigns, conferences, seminars and cultural events;
- engages with Italian and European institutions to encourage the implementation of a regulatory framework promoting sustainable investments.

Since 2012, ItaSIF has organized the Italian SRI Week, the main initiative in Italy on sustainable and responsible investment.
ItaSIF is a member of Eurosif, the association for the promotion of sustainable investment in the European market.

ALTIS is the Graduate School on Sustainable Management of the Università Cattolica del Sacro Cuore. Since the early 2000s, it focuses on sustainable development in its educational, research and consultancy services. ALTIS contributed to defining the profession of "sustainability manager" through the foundation of the CSR Manager Network and the creation of the first training programme in Italy addressed to these professionals, which has reached its 19th edition and trained more than 530 managers. The School works with a variety of sectors to enable the dialogue and exchange best practices among big corporations and SMEs, non-profit organisations, public bodies, and financial institutions. The close connection with companies allows it to keep track of changes and develop projects and products that are aligned with market needs: for instance, in 2017, it launched the first Master in Italy with a focus on sustainable finance.

Published in November 2021

Study realized by

Forum per la Finanza Sostenibile

In collaboration with

UNIVERSITÀ CATTOLICA del Sacro Cuore
ALTIS
ALTA SCUOLA IMPRESA E SOCIETÀ

With the support of

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