



Italian SMEs and ecological transition

ESG profiles and sustainable finance



An important link exists today between sustainability and the financial world. Eurizon considers the integration into its investment process of financial instrument selection methodologies that also take into account Environmental, Social and Governance (ESG) factors, as well as Socially Responsible Investing (SRI) principles, as a necessary element in pursuing sustainable performances over time.

For years, Eurizon has been promoting virtuous behaviours that are also centred on the sustainability of investments. The AM company is firm in its belief that issuers able to boast high environmental, social and corporate standards, are capable of generating sustainable performances in the long run. Eurizon's history of commitment to ethical and responsible themes began as far back as 1996, when the first ethical funds were established, with clear and articulated asset selection criteria, a Sustainability Committee and the planned donation of a part of the fees generated by these funds to deserving organisations and associations. In 2014 Eurizon signs the Italian Stewardship Principles for the responsible exercise of administrative and voting rights in listed companies; in 2015 Eurizon signs the six Principles for Responsible Investment (PRI); in 2017 Eurizon integrates ESG factors and SRI principles in its investment process. In 2021 after adopting the Engagement Policy in 2020, with the coming into force of Regulation EU 2088/2019 (SFDR), Eurizon draws up its Sustainability Policy, that illustrates how sustainability risks are integrated in its investment decision-making process; in November the AM company joins the Net Zero Asset Managers Initiative (NZAMI), formed by international asset managers committed to supporting the goal of achieving zero net emissions of greenhouse gases by 2050, or sooner, and to supporting investments in line with this goal. Eurizon is also part of many domestic and international associations, to consistently strengthen its commitment to promote the respect of sustainable growth and high governance standards.



EY exists to build a better working world, helping to create long-term value for clients, people and society and building trust in the capital markets. Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients to grow, transform and operate. Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY supports the transition to a sustainable economy, engaging in the protection of the environment and of those people who are most vulnerable to climate risks. EY became carbon negative in 2021, a major and significant step towards achieving our ambition of becoming net zero by 2025. Financial institutions play a key role in this transition, which also represents a great business opportunity. EY has created a specialized and multidisciplinary team, focused on financial services, who assists businesses in defining their sustainability goals and strategies, to create more value and support their clients in this change. EY helps financial institutions to measure long-term value and to identify and manage related risks, so that they can make informed and quick decisions. By helping the financial sector to seize the opportunities emerging from this historic moment, it's also helping to build a better working world.



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

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Riello Investimenti Partners Sgr is an independent asset management company, active since 25 years in alternative investments, in the asset classes of private equity, private debt and venture capital. It has been operating since its origins in the segment of Italian SMEs, with the aim of creating sustainable and long-term value in the invested companies. Thanks to the industrial DNA

of the Partners, the Sgr bases its investment activities on active management and on the direct strong involvement of the teams in all asset classes. The Sgr counts among its investors main institutional investors, family offices and important Italian industrial groups. To date, Riello Sgr is raising with the second private debt fund, the first venture capital fund and is about to launch the fourth private equity fund. On sustainability issues, Riello Sgr has always been sensitive and attentive, but since 2020 it has decided to create a structured and formalized system by adopting a social responsibility policy and signing the PRI. The ESG model applied to all funds provides the exclusion of investments in controversial sectors and an ESG Integration along all stages of the investment process; the rigorous and proprietary ESG model is built specifically thinking on the reality of Italian unlisted SMEs. During the selection phase, each potential target company receives an ESG screening, aimed at identifying sustainability opportunities and risks and useful for planning the subsequent action plan with a view to improvement. Once the companies enter the portfolio, the model provides for a periodic assessment of the ESG aspects according to the main standards and the best practices of analysis recognized internationally. Thanks to ESG Integration, the advantages are clear both for the investors in the funds and for the target companies, who in this way can start a path of development and improvement not only financial, but also on sustainability issues, for the benefit of the real economy in Italy.

1. Foreword

Small and Medium Enterprises (SMEs) are key players in the Italian economy: totaling 153,000, they account for approximately 19% of the 800,000+ corporations operating in Italy¹. SMEs are gradually becoming more **aware** of both the need to initiate the ecological transition process and the importance of integrating ESG (Environmental, Social and Governance) issues in their business strategies. However, compared to large companies, SMEs present more heterogeneous characteristics when analyzing their ESG profiles.

1.1. GOALS AND METHODOLOGY

The survey, conducted by the Italian Sustainable Investment Forum (ItaSIF) in collaboration with Cerved Group and Cerved Rating Agency, analyzed **the challenges and opportunities derived from the ecological transition for the SMEs**, their awareness of the importance of ESG issues and the access to sustainable finance instruments.

To this end, the survey delved into:

- **the sustainability profiles of the SMEs and the materiality of the main ESG themes** both in terms of risks and opportunities;
- the effects of **climate change** on economic activities and the impacts of the economic activities on climate, as well as the adaptation measures implemented;
- the knowledge of the **European and Italian legal and regulatory framework** (with a focus on the European taxonomy of environmentally sustainable activities and the Corporate Sustainability Reporting Directive - CSRD);
- the opportunities offered by the **National Recovery and Resilience Plan (NRRP)** and by the **sustainable finance** to support the ecological transition;
- **the initiatives taken by large financial and non-financial companies** to support the ecological transition of the SMEs.

A qualitative and quantitative **methodology** was **applied**, based on:

- a brief analysis of the potential impacts of the taxonomy on the Italian economic system and on the ability of the SMEs to cope with the transition based on the data available to the Cerved Group;
- structured telephone interviews with 415 SMEs mainly operating in the sectors that are most heavily affected by the ecological transition;
- semi-structured telephone interviews with 11 large companies, banks and investors to delve into the strategies adopted to support the SMEs in the transition process.

1.2. THE REFERENCE SAMPLE

In regard to the structured interviews, the **reference universe** is comprised of Italian companies with a turnover of €2-€50 million and a headcount of between 10 and 250². The **sample** was composed of companies included in the Cerved database and was defined based on the following criteria:

- turnover of €2-10 million and €10-50 million and headcount of between 10-50 and 50-250;
- reference sector (the companies selected mainly operate in the energy, waste and water management, manufacturing and agri-food sectors);
- geographic area (distribution across Northern/Central/Southern Italy and the Islands);
- level of ESG maturity (companies with an ESG track record and well-known ESG profiles have been included).

1. Source: Cerved data as at December 31, 2020.

2. Recommendation 2003/361/CE relating to the definition of microenterprises, small and medium enterprises.

2. The transition and its impact on the Italian economic system

The ecological transition can entail, in the short term, higher costs for the companies operating in the most polluting sectors or for those companies that delay the decarbonization process. Therefore, these companies are exposed to the so-called **transition risk**, which is linked to a number of factors such as, for example, taxation on emissions, the need for significant investments to modify production facilities to reduce emissions and energy consumption, innovations of the technological progress and/or in the preferences of consumers that can adversely affect the existing or achievable market share.

An analysis of 683,000 companies³ has shown that the conversion processes necessary from an environmental standpoint could pose a severe risk for **57,000 companies** (8.4% of the sample), which account for a high proportion of the financial debt of Italian companies (€285 billion, or 31% of all debt). Credit risk scores and financial statements show that **most** of these companies (35,000, or 5.1%) **cannot afford to make the investments necessary for the transition** since doing so would jeopardize their financial viability.

The “**very high**” and “**high**” **risk classes** comprise the sectors that are more exposed to the transition risk and that, in order to continue operating in the market, need considerable investments to convert their production or restructure their production facilities. Very-high-risk sectors include the **extraction, processing and marketing of fossil fuels** as the latter are to be phased out over time. High-risk sectors include **energy-intensive businesses** that operate, for example, in the production of electricity from non-renewable sources, heavy industry (e.g. steelmaking) and the agricultural supply chain (stock breeding), that are subject to very stringent regulations requiring heavy investments to align with the new standards.

In terms of size, **the exposure to the environmental transition risk increases with size**. The **geographical distribution** of the companies exposed to the transition risk shows a fairly heterogeneous picture that reflects the diverse range of production specializations of local economies. The “**Mezzogiorno**” (i.e., Southern Italy including Sicily and Sardinia) features the highest exposure to the transition risk.

3. The SMEs and the ecological transition: key findings

3.1. THE SMES' SUSTAINABILITY PROFILES AND THE IMPORTANCE OF ESG THEMES

The first topic analyzed in the telephone survey was the **importance given by the SMEs to sustainability themes** and the requests that they receive in relation to this.

Respondents were mainly **corporate executives and managers** (65.8%), who know the strategic evolution of the companies very well. Over 45% of the companies reported that sustainability plays an “all-important” or a “very important” role in the business enterprise and that it drives strategic and investment choices. Added to this, 39% of the companies reported that sustainability themes are fairly important for defining their strategic orientation. In summary, the SMEs strongly agree that today **sustainability themes** are **particularly important in business development**. The **manufacturing** and **utility** sectors are, among those surveyed, the most aware of these themes.

The importance given to ESG themes also correlates with the **pressure on sustainability issues** the SMEs have encountered. The SMEs interviewed have been approached regarding these themes over the last year especially by **customers** (29.6%), either other companies or end users, and **suppliers** (17.8%). Other requests came from banks (13.5%) and investors (3.6%), while only 4.8% of the companies reported having been asked about ESG by their employees.

Alongside the role of the main stakeholders, **legal and regulatory developments** are viewed as the drivers for the adoption of sustainability policies. While most of the companies surveyed view this pressure as “important” (38.1%), a slightly lower proportion of them deem it to be “of little importance” (34.9%). In this regard, it should be highlighted that, out of the 415 companies interviewed, only 1 is in the CSRD scope. Notwithstanding, several respondents belong to the value chain of larger companies, which, in turn, are subject to the CSRD.

The main risks and opportunities that might result from the greater focus on sustainability-related themes have also been analyzed. On the **risk side**, widespread agreement exists regarding the need to pay **higher operational costs** (e.g., implementation of reporting and communication processes, ongoing training on ESG themes, integration of new activities in the business, etc.). A smaller proportion of companies also foresee higher **investment costs** for replacing

3. The data in this paragraph were extracted from the Cerved report: Cerved 2022, *Il rischio di transizione nel sistema produttivo italiano*.

existing machinery with less polluting models. Another risk that has been identified is the **cumbersome bureaucracy**, reported by 32.5% of companies; finally, 22.2% of companies consider their **in-house sustainability competencies** to be inadequate. On the **opportunities side**, respondents predominantly reported **reputational benefits** (38.8%) and savings derived from energy-efficiency processes (36.4%).

3.2. CLIMATE CHANGE AND BUSINESS MANAGEMENT

The survey analyzed the SMEs' level of knowledge of environmental risks and the impact that these can have on the business. The main impacts of the SMEs on the environment have been identified as well as their awareness of such impacts and the strategies put in place to mitigate them.

Climate risks and their repercussions on the company

With respect to climate-related risks and, in particular, to the physical and transition risks, **62.4% of the SMEs** interviewed believe that climate change will **have repercussions on their business** in the long or short-term (50.4% and 12% respectively). In contrast, **approximately 40% of the SMEs interviewed are unable to estimate their level of exposure**. Importantly, this shows that, despite their claims on the importance of ESG themes, most SMEs have not yet started to actually focus on these urgent aspects.

On the other hand, the companies that provided a precise answer (248) perceive the **risk** to be **medium-low**. The **transport and logistics** sectors perceived the highest level of transition risk; the **IT** sector, instead, perceived the lowest level of exposure. In regard to the physical risk, the companies that perceive a high level of exposure are concentrated in the **utility** sector, while those that reported a low exposure operate mostly in the **service** sector.

All companies were asked if they have taken any **measures to adapt to climate change**, i.e., specific actions to mitigate adverse effects. Only **9.6% of companies** reported having done so and, in particular, they reported having adopted measures to combat resources waste (including the waste of energy, raw materials, water, etc.) and to steer production processes towards a circular economy.

18.6% of companies started considering the adoption of such measures, reporting that they budget for a 6 months to 1 year time horizon (32.5%) or 1-2 years time horizon (36.4%) to complete the process. The main obstacle found in defining climate change adaptation measures is the lack of resources and time. Moreover, **71.8% of the companies did not take any adaptation measures and did not start considering doing so**, mainly because they consider this to be a low-priority initiative – this answer being in sharp contrast with the claims made on the importance of sustainability themes.

3.3. IMPACTS OF THE COMPANY ON THE ENVIRONMENT

To complete the picture of the inclusion of environmental themes in the strategies of the SMEs, **the assessment of the impact of business activities on the environment** was analyzed in depth: **23.9%** of the companies made this assessment; this figure increases to 49.3% in the utilities sector. The main impacts identified relate to pollution of the environment and the consumption of natural resources. In order to reduce these impacts, most companies have started renewable energy and energy efficiency projects.

Moreover, **21% of the companies** (or 87 out of 415) have not yet analyzed their impacts on the environment, but reported starting **considering doing so**. The main obstacles they mention include lack of funds, time and specific know-how. Finally, **55.2% of the companies have not considered the impacts generated by them and have not started considering them**, mainly in the **IT** (73.6%) and **service** (66.7%) sectors, the main reason given for this being the low priority given to this theme.

3.4. THE EUROPEAN AND ITALIAN LEGAL AND REGULATORY FRAMEWORK FOR THE SMES

Over the last few years, the European Union has strengthened its efforts towards a sustainable economic and social development model. The latest legislative developments worth mentioning in this regard are the **Corporate Sustainability Reporting Directive (CSRD)**, which will replace the Non-Financial Reporting Directive (NFRD), and the **European taxonomy of environmentally sustainable activities**.

As pointed out earlier, the legal and regulatory pressure on ESG themes is an important factor for 48% of the companies. Still, **almost all of the SMEs** (90.8%) surveyed **reported not knowing the CSRD**; similarly, **86.3% of the companies believe they are “not at all informed” on the European taxonomy of environmentally sustainable activities**.

3.5. SMES ACCESS TO SUSTAINABLE FINANCE FOR SUPPORTING THE ECOLOGICAL TRANSITION

As part of the resources available to the SMEs to support the ecological transition, the credit and financial systems play a crucial role. **Approximately 70% of the SMEs interviewed reported habitually relying on credit institutions.** Still, despite having long-lasting relationships with the latter, **only 17% reported relying on bank loans for sustainability projects.** These are mainly SMEs operating in the logistics (21.1%) and utilities (39.7%) sectors. In most cases their relationship with credit institutions still appears to be anchored to more traditional services.

In addition, **less than half (41.4%) of the companies are aware that ESG will be integrated in credit rating.** This possibly explains the **scarcity of available data** that the SMEs are able to provide to banks regarding ESG aspects. Only 7.5% of the companies surveyed makes this information available to their employees and external stakeholders (investors, suppliers and customers).

The survey also investigated **the use of financial instruments other than credit loans in relation to ESG** (e.g., the issuance of green bonds, the access to private equity/debt funds, etc.). Only a very low proportion of the companies (2.7%) had already used them, especially private debt. These instruments were mainly used for implementing **low-environmental-impact transport solutions** and **a more sustainable management of natural resources** (e.g., water, soil, raw materials, etc.).

4. Conclusions

The survey showed that the **SMEs are embracing sustainability** and recognize its central role in corporate strategies. The pressure brought to bear upon them by their stakeholders and, in particular, by their **value chains** are a key driver for them to embark on a path towards sustainability with the clear expectation of **benefits in terms of reputation and cost-efficiency.**

At the same time, according to the SMEs, the actions required to be more sustainable are hampered by **higher operational costs**, a more complex **management of bureaucracy** and the **lack of specific competencies.** As a result, the SMEs are reluctant to assess their exposure to environmental risks and implement climate change adaptation measures. In addition, the **lack of time** was reported as being one of the main barriers to the implementation of climate-change adaptation measures, **which clashes with the sense of urgency that should be perceived regarding environmental themes**, even more so in light of the current energy crisis and the recent extreme weather events that occurred in Italy and elsewhere.

The SMEs interviewed showed **little awareness of the legal and regulatory developments** related to ESG themes and appear to underestimate the fact that, in this area, proactiveness can generate real business opportunities. That being said, however, it should be borne in mind that the sample is comprised of companies that are not specifically required to embark on a sustainability path.

The **NRFP** and **sustainable finance** can be important drivers of growth and sustainable development for the SMEs. Still, it seems that many companies are not yet ready to start this journey. As such, more initiatives are needed to inform and support the SMEs and to enhance the value of PPPs (Private-Public Partnerships) so as to raise the awareness of the financial opportunities that underpin the process of ecological transition.

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 inclusion 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 Weeks, one of the leading initiatives 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.



Cerved, founded in 1974, provides support to businesses, banks, other institutions and professionals to protect themselves from risks and to grow sustainably. Thanks to a unique, vast wealth of data and analytical capabilities, Cerved provides its clients services, advice and digital platforms that enable them to manage risks and to pursue data-driven growth. Its subsidiary Cerved Credit Management Group helps the economy digest and recover non-performing loans and bad debts. With a vast wealth of information on Italian companies, their managers and their real estate holdings, combined with lengthy experience in the field of data analytics, Cerved has established itself as a benchmark for analysing businesses. Every day, Cerved helps the Italian economy protect itself from risks and grow sustainably. By conducting research and analysing the Italian economic system's current health and prospects for the future, Cerved contributes to a stronger financial culture and better market transparency. Within the past year, the Group finalised the Sustainable Italy Report, covering the physical business risks and transitional risks involved in the shift to a sustainable economy. This research report will help the business community and institutional actors develop knowledge and skills around the issues that are strategic to the Italian economy. In the interest of building a more digitalised and sustainable country, Cerved is also working closely with government agencies to facilitate access to National Recovery and Resilience Plan (PNRR) funding for those businesses that are able to generate value. In addition, the Group promotes guidelines for businesses to improve their sustainability profiles and at the same time find opportunities for growth.

Cerved Rating Agency is the Italian agency specialized in assessing the creditworthiness of non-financial Italian corporates and debt securities. In addition, the Agency issues ratings on the sustainability of corporates, financial institutions and insurance companies, applying innovative assessment techniques based on a proprietary methodology, developed in line with international best practices.

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