

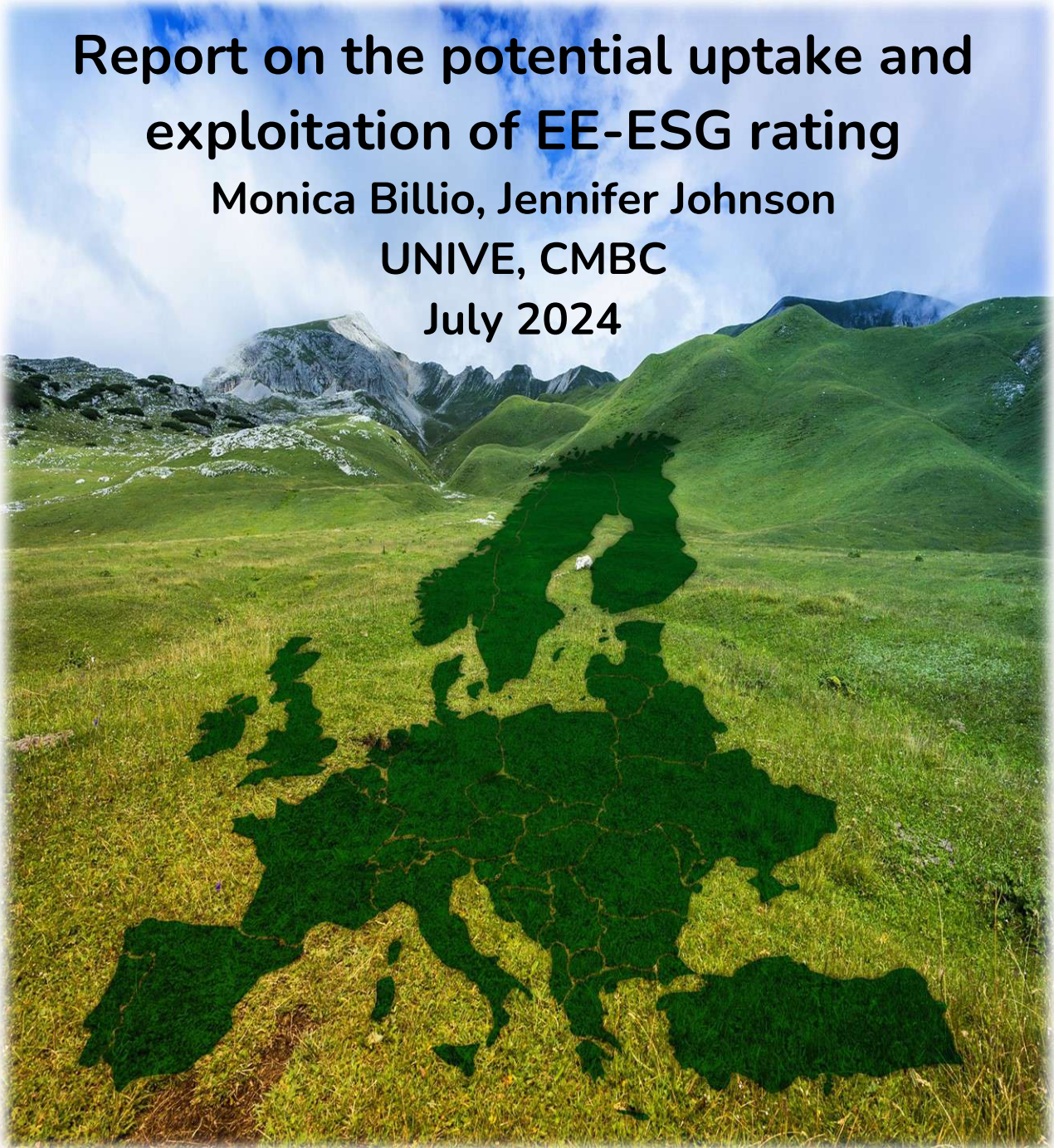
 **TranspArEEEnS**

**Report on the potential uptake and
exploitation of EE-ESG rating**

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**Mainstreaming Transparent
Assessment of Energy Efficiency
in Environmental Social
Governance Ratings**

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Executive Summary

The last 3 years of researching, developing and testing the TranspArEEnS EE-ESG rating have enabled us to identify, analyse and operationalise its variety of uses across the SME financing value chain responding to the objectives of enhancing the standardised disclosure of EE investments and therefore firms' access to EE financing, and of mitigating the risk of greenwashing.

In this Report, the description of the EE-ESG rating shows how it has been developed, tested and since commercialised by CRIF and Modefinance – demonstrating its commercial relevance and viability and furthermore giving strong evidence of sustainability of the project beyond lifetime also thanks to the testing success stories.

With its focus on mainstreaming a quali-quantitative framework for the standardised collection, analysis, rating and disclosure of firms' EE and ESG information, the EE-ESG rating has particularly strong relevance for the EU's banking sector in serving as an EE-ESG filter which can inform and guide financial decisions and investment, whilst facilitating compliance with an ever evolving regulatory and supervisory framework focused on scaling up energy efficiency investment and managing climate and environmental risk respectively.

Development and testing during the course of the project have enabled us to identify potential opportunities for uptake and exploitation of the EE-ESG rating by actors in the SME financing value chain, from SMEs themselves as potential borrowers, to banks as lenders and issuers of debt instruments, to investors and regulatory and supervisory authorities.

1. Introduction

Undoubtedly, EU SMEs represent significant economic actors contributing to the EU economic activity and employment. Besides their intrinsic vulnerability, comparatively to large companies and multinational enterprises, recently they have been exposed to several major challenges: inflation, raising borrowing costs, climate change risk (transition and adaptation risks) and their access to finance can be improved.

Given the significant lack of energy efficiency and sustainability data for SMEs at granular level for all EU member states, the TranspArEEnS project proposes a methodology allowing to fill the existing data gap and offer to SMEs and the financial system a possible solution for enhancing the financial support of the green transition.

As highlighted by Angelini (2024)¹, sustainability information is becoming essential, under the pressure of legislation, supervision and accounting rules. Financial intermediaries are preparing to integrate it in their credit and portfolio management policies, as it allows to systematize and exploit information already in the possession of firms. From this standpoint, the TranspArEEnS project provides crucial insights and solutions.

Indeed, the EE ESG scores can allow to bridge the existing data gap and provide to banks essential information, easing the access of SMEs to financing in the future, following the consideration that a lack of sustainability data can hamper the access to finance (Angelini, 2024). Moreover, EE ESG scores can play a pivotal role in the potential ESG European Security Notes creation and implementation processes. This new financial green instrument targeting SMEs is expected to combine existing covered bond techniques and markets' best practices defined by the EBA.

In parallel, intermediaries have expressed their intention to promote financial products favouring sustainable projects with tangible characteristics: "green" loans, mortgages and bonds, indicating therefore their potential interest for such solutions. From the companies' perspective, those that would be able to provide reliable sustainability information "will tend to be perceived as more sustainable, with possible positive effects on access to external financing" (Angelini, 2024). Thus, both non- financial companies and intermediaries can benefit from a more intense mutual collaboration, based in a first step on sustainability information sharing.

¹ Angelini, P. (2024). SMEs and the climate and environmental transition, SUERF Policy Brief No. 896. <https://www.suerf.org/publications/suerf-policy-notes-and-briefs/smes-and-the-climate-and-environmental-transition/>

2. Development and uptake of the EE-ESG rating

The TranspArEEnS project encompasses not only the discussion on the relevant questions but more importantly the development of practical solutions that encompass competencies and results from the whole Consortium. As detailed in the deliverables, these include the creation of an EE ESG questionnaire to collect relevant information (and allowing SMEs to disclose their sustainability) and an EE ESG rating procedure aiming to provide tangible EE ESG rating scores for SMEs. In the following a brief description of these results is reported along with the discussion of their major relevance for evaluating SMEs' ESG risk and thus their potential contribution to the development of EE targeted private funding options. With the support of the Coordinator, the three industrial partners (CRIF, Modefinance and CMBC) have been the main developers of the market solutions and this was particularly useful in allowing the immediate use and uptake of the proposed solutions.

✓ The quali-quantitative questionnaire administered by CRIF through the Synegy platform

The first result obtained and implemented by the Consortium is mainstreaming a quali-quantitative framework for standardized collection and analysis of firms' EE and ESG information.

CRIF has thus administered two different types of questionnaires:

- a general questionnaire submitted to all the companies object of the analysis and within the identified perimeter (Italian SMEs);
- different types of sectoral questionnaires which allow to better understand and evaluate the differences among sectors.

Macro structure of the questionnaires



The questionnaire includes four major themes: Business, Environmental, Social and Governance and is designed such as to align with the current ESG Key Performance Indicators (KPIs) employed by rating agencies according to the analysis and results obtained by the Consortium and in particularly by UNIVE and SAFE.

Focus on main topic analyzed



A significant number of financial and nonfinancial institutions (350 supply chain leaders) participated to the spread of the questionnaire allowing to reach over 220,000 Italian SMEs through the Synesgy platform.

CRIF Platform used for administration



In result a comprehensive and unique database covering 4,579 SMEs in Italy was obtained, encompassing ESG data, financial data, market data and ESG and credit ratings information.

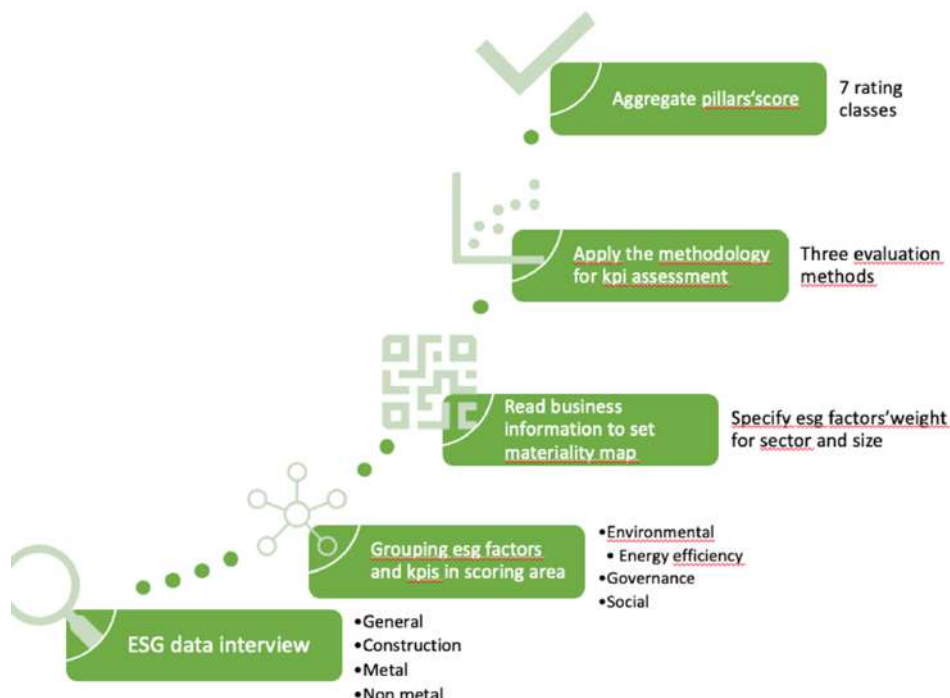
In fact, along with ESG data, the new sample has been enriched through the inclusion of financial information (for each SME) collected and provided by CRIF.

The Synesgy platform is currently used by CRIF to administer also the TranspArEEnS questionnaire and collect relevant EE ESG information on SMEs, not only at Italian level, but a global level².

✓ The EE ESG rating developed by Modefinance

On the basis of this new data set and leveraging on the support of the Consortium and the analysis performed by UNIVE and SAFE, Modefinance has developed an EE ESG scoring model that is now currently implemented.

The development procedure was organized in three major stages. The first step consists in the ESG data collection and standardization, through the definition of a KPI dictionary. In step 2, is defined the assessment system transforming the chosen KPIs into a score based on a peer-to-peer comparison methodology. At last, step three is dedicated to the aggregation and weighting processes leading to the obtention of **seven rating classes**.



² <https://www.synesgy.com/en/who-we-are/why-crif/>
<https://www.synesgy.com/en/sme-s-questionnaire/>



As described in the table below, the **Environmental pillar** follows the EU Taxonomy Environmental Objectives and the European Sustainability Reporting Standards and encompasses the scoring areas of energy efficiency, climate change mitigation (CCM), water treatment and use, air pollution, circular economy commitment, environmental impact and biodiversity impact. Furthermore, a specific sectoral environmental set of KPIs is also defined. The latter focuses on the companies' innovation level and the climate change adaptation measures implemented by them.

The **Social pillar** describes the companies' commitment to workforce investment (fixed term contract proportion, gender diversity and salary gap, certification on corporate social responsibility and other employment related measures). It also includes KPIs relative to its impact on the community through the participation to local communities' projects and donations) and its supply chain policy (focusing on the environmental and social evaluation and certification of suppliers).

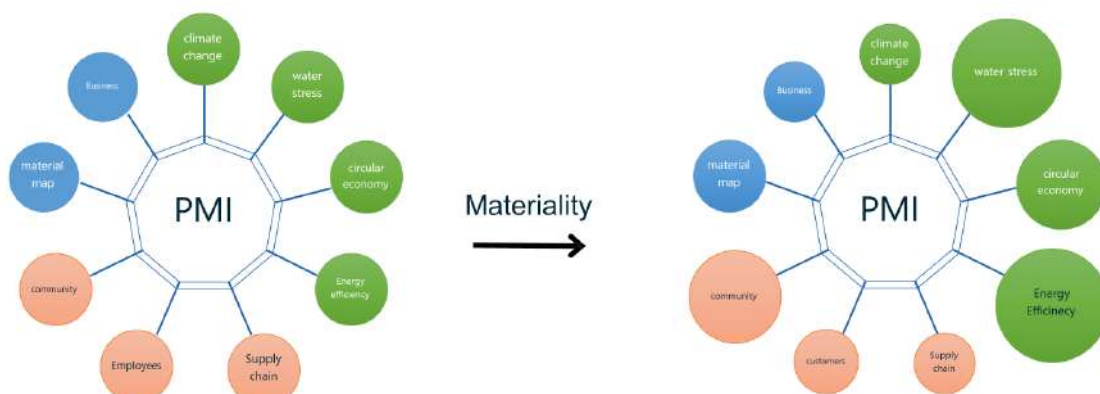
Thematic areas of the EE ESG scoring model

Pillar	Subpillar/Scoring Area	Scoring Area Description
Environmental	Energy Efficiency	Commitment of a company to managing the energy consumption
	Climate Change Mitigation [ESRS E1]	Commitment of a company to adopting solutions in order to reduce its impact on climate change, including the use of renewable sources.
	Water [ESRS E3]	Optimization of the use of water resources.
	Pollution [ESRS E2]	How to business of the company can affect pollution of air, water and soil. (The survey is focused on the pollution of air)
	Circular economy [ESRS E5]	Commitment of the company in the optimization of the resources use in terms of reduction of waste, re-use of materials, durability and recyclability of the products.

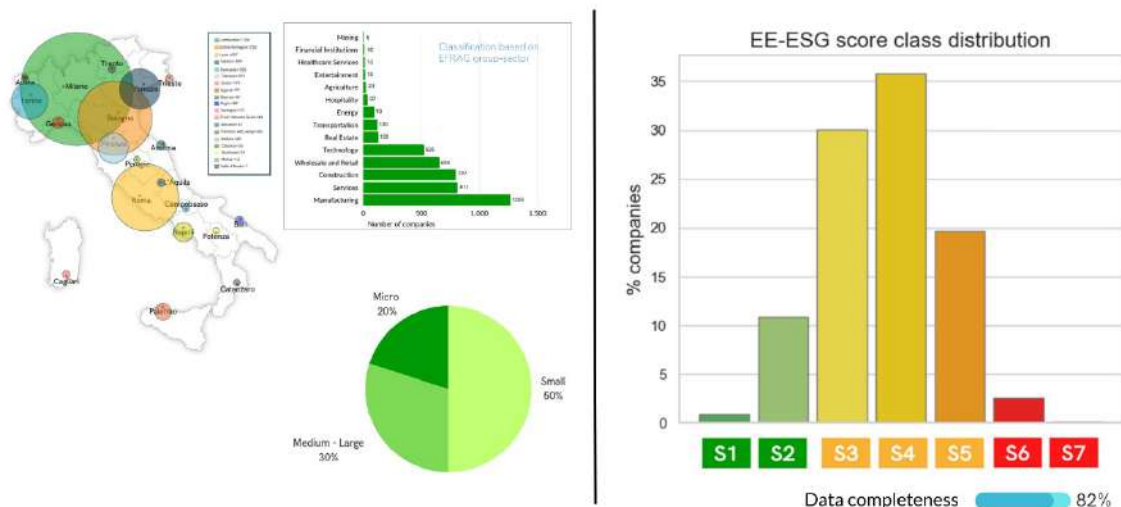
	Environmental Impact	The topic of this section is closely connected with other areas, it considers any form of positive or negative impact of the business in environmental matter
	Biodiversity [ESRS E4]	Actual or potential impact on biodiversity and ecosystems
Environmental /sectorial	Enabling physical risk adaptation	This area is strongly related to the “climate change adaptation” environmental objective. It is used in Construction model to evaluate the investment of a company to construct buildings that are resilient with the effect of the climate change.
	Innovation	Consider the company commitment in the use or research (direct or indirect) of sustainability technologies.
Social	Employment	Evaluation of the impact on the employees, including evaluation work conditions, equality and nondiscriminatory environment, health and safety, training process, absence of forced and child labor
	Supply Chain	Evaluation of sustainability of the supplier chain of the company
	Community	Evaluation of the impact on the community in terms of donation or social initiatives.
Governance	Governance Structure	How a company organizes and manages its decisions to incorporate sustainable principles into all its activities.
	Business	How a company operates responsibly and conscientiously to ensure its long-term success and contribute positively to the community and the environment through ethical and sustainable practices
	Certification Law	To comply with regulations, meet consumer expectations, and demonstrate their commitment to responsible and sustainable business management, companies often resort to certifying their processes

At last, the **Governance Pillar** evaluates the ability of the company to plan and implement appropriate strategies for mitigating potential ESG risks, through adapted governance structures, sustainable business strategy, management and monitoring, along with sustainability certification.

Once that the ESG factors and the KPIs are grouped in scoring areas, specific ESG factors weights are attributed according to the sector and size of the company in order to set the materiality map.



The results on the Italian SMEs sample demonstrates the feasibility and the relevance of the EE ESG rating that Modefinance has implemented in a demo. This platform, designed as a Software as a Service (SAAS) tool leveraging the Tigran™ (RAAS)³ product by Modefinance. The introduction of this platform represents a significant advancement in the operational capabilities of the EE-ESG rating system, enabling efficient and scalable processing of data inputs.



✓ Testing success stories

The experimental phase of TranspArEEnS saw the involvement of two local Banks, in particular cooperative credit banks, as to evaluate the ability to offer and receive the ESG evaluation of SMEs and the possibility of using the information for credit allocation.

Both pilot Banks were very active in their participation, engaging in internal training, contacts with clients and giving support in understanding the importance of ESG assessment and finally in allocating resources to encourage ESG investments, in particular in energy efficiency. Both pilot Banks have been committed to the dissemination of ESG culture by engaging with bilateral meetings with clients to complete the questionnaire and with seminars and workshops dedicated to the TranspArEEnS project and its strategic importance. A dedicated fund was then offered (between 20 and 30 million euros overall) to encourage the evaluation of the investments needs for a sustainability path. The fund was tied in the first phase to the completion of the ESG assessment and the identification of actions/investments that allow an improvement in the company's ESG profile.

³ <https://www.modefinance.com/it/soluzioni/tigran>
<https://www.modefinance.com/it/tecnologie/esg-score>

The more interesting test has been on a sample of more than 600 companies in the Veneto Region, which together generate a turnover of 13+ billion euros. The presentation of results took place in Treviso on 4 April 2024 on the occasion also of the first edition of Talk&In and ESG Reward, specific formats created for dissemination and awareness on the EE ESG rating. For the ESG Rewards, 7 companies have been identified and rewarded thanks to their results and the involvement of local stakeholders: Unioncamere Veneto, CNA Veneto and the pilot Bank CentroMarca Banca.



3. Exploitation in the banking sector

With its focus on mainstreaming a quali-quantitative framework for the standardised collection, analysis, rating and disclosure of firms' EE and ESG information, the EE-ESG rating has particularly strong relevance for the EU's banking sector in serving as an EE-ESG filter which can inform and guide financial decisions and investment, whilst facilitating compliance with an ever evolving regulatory and supervisory framework focused on scaling up energy efficiency investment and managing climate and environmental risk respectively.

As indicated in the introduction to this Report, research and testing during the course of the TranspArEEnS project have enabled to identify potential opportunities for uptake and exploitation of the EE-ESG rating by actors in the SME financing value chain, from SMEs

themselves as potential borrowers, to banks as lenders and issuers of debt instruments, to investors and regulatory and supervisory authorities.

✓ **Enhanced EE-ESG disclosure by SMEs means enhanced access to finance for SMEs**

One of the core objectives of the current Project and the EE-ESG rating specifically is to enhance transparency and standardisation of SMEs' 'green' credentials which will facilitate the classification and assessment of these SMEs and, as a result, the assessment of their credit risk by banks. On this basis, banks will be able to scale up their lending to SMEs, in particular their EE-ESG lending. This will deliver SMEs with the financing needed to invest in skills and equipment to support the climate transition.

Indeed, for a number of reasons including constraints linked to credit risk assessment as a result of poor or a lack of documentation and no or very limited public information on their performance depending on the country, historically, access to finance for SMEs has often been cited by these firms as a key challenge that they face in the pursuit of their business activities. Inevitably, this challenge is amplified in the case of financing for SME energy efficiency projects, where the lack of standardised and transparent disclosure of SMEs EE investments and ESG performance represents an additional obstacle for banks in the provision of this type of financing, limiting the significant potential SMEs have in supporting the climate transition.

It is worth mentioning here that its FAQ on the EU Taxonomy⁴, the European Commission suggests that companies not subject to the NFRD, including SMEs, disclose their taxonomy-alignment KPIs voluntarily, for example, for the purpose of securing environmentally sustainable finance based on alignment with the Taxonomy Regulation, or as part of their overall business strategy based on environmental sustainability.

The relevance and value for SMEs of reporting (as soon as possible) on their ESG credentials and in particular their EU Taxonomy eligible activities and therefore alignment by way of the EE-ESG rating, with its direct link to the EU Taxonomy, is clear in this context.

✓ **Enhanced EE-ESG disclosure by SMEs means opportunities for banks to 'green' existing SME loan portfolios & ensure greater regulatory and supervisory alignment and compliance:**

In responding directly and robustly to the challenge of limited information on SMEs' 'green' credentials and facilitating bank financing of SMEs, the EE-ESG rating enables financial institutions to respond to corresponding policy objectives and requirements in the area of

⁴https://finance.ec.europa.eu/system/files/2021-07/sustainable-finance-taxonomy-article-8-faq_en.pdf

Sustainable Finance and the EU Green Deal, whilst delivering significant added value in the supervisory context, where increasing emphasis is being placed on the robust management of climate and environmental risks from a financial stability point of view.

Indeed, by providing banks with a more robust overview of SMEs' EE-ESG credentials, the rating will: (1) helps banks to understand the 'green' credentials of their existing SMEs loan portfolios, by delivering a benchmark against which these loans can be measured and tagged, therefore providing them with the information needed to take active steps to transition these portfolios, (2) supports banks in responding to existing and future supervisory expectations around the management of climate and environmental risk, and (3) facilitates banks' compliance with the myriad of EE-ESG reporting and disclosure requirements.

In this latter respect, it is worth pointing to a specific disclosure requirement introduced by the EBA, namely the Banking Book Taxonomy Alignment Ratio (BTAR) which, alongside the Green Asset Ratio (GAR), is intended to provide transparency on how institutions are financing activities that will meet the Paris Agreement climate change objectives based on the EU Taxonomy. While the GAR covers exposures to undertakings that are subject to the CSRD and therefore obliged to publish non-financial information (not the case for SMEs), the BTAR is intended to cover European banks' exposures, including those to SMEs, which might be EU Taxonomy aligned, but are not eligible for the GAR calculation. The BTAR essentially represents an additional indicator to measure the alignment of a banks' total exposures to the EU Taxonomy.

As indicated above, the European Commission has suggested that SMEs may wish to disclose their taxonomy-alignment KPIs voluntarily, for example, for the purpose of securing environmentally sustainable finance based on alignment with the Taxonomy Regulation, or as part of their overall business strategy based on environmental sustainability. The European Commission furthermore indicates in its FAQ that *"the application of KPIs of financial companies in relation to those undertakings will be reviewed over time, as part of the general review of this disclosures delegated act"*. And indeed, in Article 9 of the Delegated Regulation on Article 8 of the Taxonomy Regulation⁵, the European Commission commits to reviewing the decision to exclude SME exposures from the GAR calculation by 30 June 2024. This review will however be accompanied by an assessment of the administrative burden, the impact on access to finance and the potential impacts on SMEs to ensure there are no disproportionate consequences for these firms.

This clearly points to the importance and related opportunities for banks of starting to systematically collect this SME specific information, by way of the EE-ESG rating, for their new

⁵ https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-4987_en.pdf

lending to SMEs via their loan origination processes and for their existing portfolios of SME loans.

- ✓ **Enhanced EE-ESG disclosure by SMEs combined with subsequent increased and enhanced provision of finance to SMEs means potential for development of new capital market funding instruments:**

A greater flow of SME financing as a result of a significantly improved understanding of the profile of SMEs could potentially deliver a robust asset class for banks which could in turn be funded through a new capital markets instrument, European Secured Notes (ESN), unlocking further funding opportunities for banks and offering a wide range of benefits for investors and SMEs alike. Indeed, efforts by the European Commission have been underway since 2015, supported by the EMF-ECBC⁶, to promote the development of ESN as a dual-recourse, long-term funding instrument to allow for the financing of asset classes beyond the traditional covered bond collateral types, such as SME loans.

With its direct link to the EU Taxonomy and its overall focus on delivering information on SMEs' EE-ESG performance and activities, the EE-ESG rating has the additional potential over time to support eligibility of ESN bonds for 'green' asset purchase programmes. Equally, the standardisation and transparency afforded by the rating will help banks to demonstrate the overall EE-ESG credentials of their SME loan books, supporting current access to the TLTROs, as well as future access, should steps be taken to 'green' these in the future.

What emerges, in our view, from the analysis above is the transformative potential of the EE-ESG rating for banks, bond issuers, investors and SMEs themselves, in scaling up energy efficiency lending and investment. It will furthermore support policymakers and regulatory authorities in their policy and monetary policy agendas and strategies.

4. Next steps/future plans

Looking ahead, several plans are already in place.

First of all, as detailed in Section 2, both industrial partners CRIF and Modefinance are using and developing the quali-quantitative questionnaire and the EE ESG rating showing their commercial relevance and viability and thus success of the TranspArEEnS project.

⁶ <https://hypo.org/ecbc/market-initiative/european-secured-note/>

Furthermore, a new EU-funded project, “Delivering the Energy Efficient Mortgage Ecosystem” (DeliverEEM), to further operationalise the TranspArEEnS EE-ESG rating by deploying it alongside SME sustainability pathways to deliver a customised sustainability framework for SMEs in the building renovation sector. The intention is to integrate EE-ESG score and rating elements with other information, such as carbon footprint data, to support SMEs in enhancing their awareness of EE-ESG issues, facilitate their access to finance and to enable them to scale-up their business activities in support of the transition. The longer-term DeliverEEM aim is to create a marketplace of SMEs with certified and transparent sustainability credentials under the third pillar of the EEMI ecosystem⁷ (developed by CMBC through several EU-funded projects) as part of broader efforts, including a consumer simulator (first pillar) and access to financing options through the EEM Label (second pillar), to deliver a seamless end-to-end customer renovation journey which generates and sustains consumer awareness and demand.

Finally, the Coordinator is exploring the possibility of creating a TranspArEEnS spin-off that can complement the exploitation already in place by the industry partners of the project to ensure the full exploitation of the project in the medium-long term by integrating results and skills of the partners involved. Given the experience, results and success of the project, the developed strong competencies and the need for support both by banks and companies (including SMEs), the potential activities of the spin-off could be:

- the development and exploitation of methodologies and tools for the analysis and simulation of sustainability risks; sustainability assessments, both with statistical methods and through artificial intelligence applications; support for strategic decisions in the sustainability field of banking entities, financial and non-financial intermediaries, companies including SMEs;
- the collection, integration and analysis of data from heterogeneous sources aimed at creating an independent observatory on sustainability issues also for the purpose of producing sustainability assessment reports;
- strategic and technological consultancy for the integration of sustainability paths in banks, financial and non-financial intermediaries, companies including SMEs;
- research and development of financial and sustainability-related data analysis and information processing, for the management of banks, financial and non-financial intermediaries, companies including SMEs.

The idea of exploiting the results of the project through the creation of a spin-off has been shared among all partners, who consider it appropriate to register the TranspArEEnS trademark. The registration of the trademark will be done by the Coordinator in its own name,

⁷ <https://energyefficientmortgages.eu/home-ecosystem/>

and then eventually licensed to the new company. To this end, all intellectual property rights to the logo currently held by CMBC, that oversaw and paid the development of the logo for the Consortium, will be transferred to UNIVE as to proceed to its registration.

