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No obligations but market-based drivers to successful ESG adoption by SMEs

The publication of non-financing reports among listed SMEs is still limited. Lack of communication obviously doesn't necessarily imply absence of adoption, but it would appear quite bizarre a company embracing ESG philosophy in its internal processes then "forgetting" to ride the wave of current ESG hype.

Integrating ESG factors into managerial thinking, however, is a revolution under way, not a simple fad. Temptation to "prompt" revolutionary change in business by means of rulemaking is always around the corner. No surprise that the Consultation Document on the Review of NFRD, thus, proposes, as one possible response to the lag in non-financial reporting, the enlargement of the disclosure duties also to small/unlisted undertakings.

I do not think this is the best way to convince SMEs of the potential embedded into a shift of their strategic planning towards a long-term, sustainable horizon. Regulatory actions, with its unavoidably but burdensome solutions, should leave the floor to sound and progressive market-based evolutions. EU Institutions have already put in place the regulatory framework to favor spreading of ESG-compliant strategies (also) among SMEs: this is Capital Markets Union.

The initial 2015 Action Plan strongly addressed SMEs funding needs by proposing measures aiming at broadening market-based financing. The goal to enlarge the so-called "funding elevator" was pivotal in the Action Plan, with particular regard to the equity side (venture capital and private equity) and, more in general, the supply of "patient capital" suitable for convincing (small) companies to abandon short-term approach for a more sustainable management. 2017 Mid-term Review went further on outlining that a "deep re-engineering of the financial system is necessary for investments to become more sustainable and for the system to promote truly sustainable development from an economic, social and environmental perspective". Recent Report of The Next CMU High-Level Group stressed the sustainable character of CMU to the point that proposed a re-branding the entire project "Savings and Sustainable Investment Union".

Tools to spread ESG among SMEs are already present in the CMU logic and measures. A full deployment of the regulatory actions, reinforced by a strong injection of fiscal incentives, should boost long-term investment by both institutional and retail investor. This should in turn bring to light the need for a longer-term orientation of the goal of small firms: a sustainable strategy, an improved governance and a management

focused on social and environmental targets. A successful development of market-based sustainable finance, in conclusion, is the market response to the problem: favoring demand for ESG values and data from sustainable long-term investors is the best way to persuade innovative SMEs to take meaningful steps towards sustainability. ●