Executive Summary

The EU’s support measures for sustainable financing - implications for the Mittelstand

On behalf of the regional savings banks and Volksbanks in Siegen-Wittgenstein and Olpe and the Chamber of Industry and Commerce Siegen

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Executive summary

The EU Commission has launched a series of regulatory measures to mobilise public and private funding for the sustainability transformation of the economy. For example, from 2025, larger Mittelstand companies without a capital-market orientation will also be obliged to publish sustainability information in their non-financial report. They are thus directly affected by the regulatory measures of the EU Commission. So far, only about half of those businesses who will be required to report in the future are aware of this. There is a need to raise awareness in the coming months to give companies the necessary preparation time to comply with the legal requirements.

The majority of small and medium-sized enterprises indirectly affected

Many SMEs already have to provide various data to large customers. This is especially true for industrial companies: almost one in two has already been asked for sustainability information. The EU regulation will expand these information needs, as companies subject to reporting requirements will have to show the sustainability of their supply chain, and banks and savings banks will have to show the sustainability of their loan portfolio. Companies already anticipate an increased need for information in the supply chain - also due to the German Supply Chain Act (Lieferkettengesetz). They do not yet see the increased need for information arising among their financing partners.

Need to catch up on CO₂ emissions recording

Many companies already collect a range of consumption data, for example for electricity, water, or fuel. The additional collection effort from the regulation is therefore limited in this area. On the other hand, there is a need to catch up when recording their own CO₂ emissions and breaking down consumption and emissions data to individual customers and orders. The companies attribute a high level of effort to collecting this data.

Multi-layered challenges in financing the transformation

Two out of three companies plan to invest in more sustainability in the next three years. They want to finance these - in addition to using equity capital - primarily through bank and promotional loans. Thus, the sustainability transformation depends decisively on access to credit and the credit conditions for SMEs. Some factors make financing more difficult: for example, there is still uncertainty about the extent to which the market will reward investments in greener production
processes. The lack of infrastructures, such as access to green electricity and hydrogen, also makes it difficult to plan and assess the profitability of such investments.

**Impact on lending to SMEs difficult to foresee**

The impact of the regulation on SME financing is currently difficult to assess. It depends heavily on how banks will specifically take ESG criteria into account when granting loans in the future. Loan financing is made more difficult by a flaw in the taxonomy regulation: loans to SMEs currently negatively impact a bank's sustainability balance sheet. This error must be eliminated promptly. Otherwise, there is a risk of credit hurdles and problems for banks financing SMEs. These credit hurdles can lead to SMEs not investing in sustainable technologies or only to a lesser extent.

**EU must think at an early stage about information needs arising indirectly**

The EU Commission's intent to introduce simplified reporting standards for SMEs is to be welcomed. However, it should proceed quickly here, as SMEs already face information demands from various sides. In the future, the indirect effects of regulatory interventions on SMEs - especially newly arising information needs - should be taken into account at an early stage to avoid a proliferation of information requests and, thus, an uncontrolled increase in the bureaucratic burden.