

Testimony of Marie-Anne Barbat-Layani for the ORSE Guide on the integration of the ESG criteria in the financing, investments and services in the direction of the SMEs and micro-enterprises

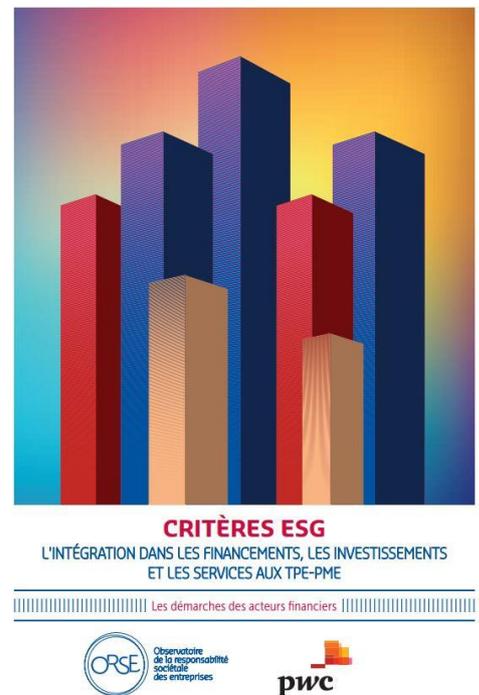
Banks, working responsibly to address social issues

Where does today's banking profession stand on ESG criteria for micro-enterprises and SMEs? Is there an underlying trend?

Banks operate at the heart of sustainable finance and their lending and investment decisions translate their commitments into practice. French banks have for many years been active on all fronts – from the energy transition to general “positive impact” financing – backing large-scale projects around the world. They have been just as active at home in France when it comes to financing and investing in their micro-enterprises and SME customers.

French banks were among the first in the financial world to commit to combatting climate change and supporting the energy transition.

They played an active part in the COP 21 environmental summit, demonstrating their commitment by early adopting the Paris accord to fight climate change before it comes into force in 2020.



What is motivating the banking sector to apply ESG criteria? How are this being done?

As part of their policies on investment and finance, the leading French banks have signed up to the United Nations Principles for Responsible Investment (PRI) or the Equator Principles for project finance. Systems for grading counterparties by ESG (environmental, social and governance) criteria have been put in place. These can take the form of rating planned deals or financing arrangements against a set of ESG criteria. The ESG ratings can then be applied in the same way as traditional credit risk ratings.

They have all also developed policies for specific sectors, particularly energy and mining, designed to avoid involvement in financing projects with a high risk of environmental impact.

Article 173 of the Act on Energy Transition for Green Growth, of 17 August 2015, obliges French banks to explain how they apply ESG criteria in their investment and financing decisions.

French banks' commitment in this area is underlined by their widely recognised expertise in issuing "green bonds", bonds issued by companies to fund projects or activities that have a direct environmental benefit (renewable energy, energy efficiency, adaptation to climate change, etc.). In 2016, France was the world's second-biggest issuer of green-certified bonds by volume and the biggest in Europe.

French banks are active sponsors of all the initiatives in the market and particularly contributed preparatory work on the Finance for Tomorrow project, which launched in June 2017.

How do SMEs and micro-enterprises regard your procedures and questions on this issue?

Beyond the steps taken within the banking sector itself, banks are also supporting customers through their SRE processes. There is a mutual interest between companies and their finance-providers to address this issue: ESG criteria are an easy fit with bankers' in-house risk models and, for the company, taking account of ESG issues is a pro-growth factor that reinforces the longevity of its business model. We are also talking about the company's global performance in the context of sustainable development thinking and policies.

The Banque de France's initiative to make sure SRE factors feed into share prices also encourages business leaders to reflect on the issues.

Environmental, governance and social issues and their associated risks constitute a vast field of knowledge and banks have been striving hard to educate their public on these issues for several years. They actively seek to develop employees' skills, raising awareness and training them in SRE issues so that companies, and particularly micro-enterprises and SMEs, can be better helped.

While a commitment to responsibility can be a great opportunity to innovate and develop for many SMEs and micro-enterprises, some also see it as a constraint, due to poor information on matters including the associated risks.

For this reason, aware of the difficulties small companies have in understanding these issues, banks have rolled out an educational drive to support their customers. In the Pays de la Loire region, for instance, the FBF's regional committee worked with local partners (business leaders' organisations including CJD de Loire-Atlantique and the Mouvement des Dirigeants Régionaux de l'Ouest, the Audencia business school and the Banque de France) to define what an SRE process would mean for an SME, the likely benefits and what it would take to get the process up and running. Guidelines to help SMEs and micro-enterprises incorporate ESG criteria into their practice were published in 2016 and they can now call on support from banks, in the form of financing provisions to cover their needs from pre-diagnostics to rolling out the SRE process.

French banking culture, based as it is on support for its customers and local links, is ideally suited to address SRE issues, which have a long-term horizon and depend on sustainable relationships.