



# SUSTAINABLE FINANCE

Sustainability Snapshots  
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**IBDO**



### > Sustainable finance is defining a new approach for making investment decisions

Sustainable finance is considered to be of essential importance for the transformation process towards the transition to a low-carbon economy and a sustainable financial system. The global efforts aim to create an environment, which meets the key objectives:

- 1 **Re-orient capital flows** towards sustainable investment in order to achieve sustainable and inclusive growth
- 2 **Manage financial risks** stemming from climate change, environmental degradation, and social issues
- 3 **Foster transparency and long-termism** in global financial and economic activities

### > Global mega-trends place the ESG agenda at the core of business operations worldwide

In a response to the most pressing megatrends and environmental risks, sustainable finance is increasingly opening up major opportunities for businesses, but it also places considerable demands on the ESG agenda implementation.



#### Global awareness

- ▶ Sustainable economy
- ▶ Low-carbon growth
- ▶ Environmental protection agenda



#### Governmental support

- ▶ National commitments
- ▶ Laws & regulations
- ▶ Budgets for sustainable projects



#### Investment allocation

- ▶ Sustainable assets
- ▶ Metrics, standards, and disclosures
- ▶ ESG-financial risks



#### Regulatory activity

- ▶ Regulatory initiatives & authorities
- ▶ Green washing measures
- ▶ Transparent operations

### > The EU pushes a more sustainable finance model to the mainstream

In the EU, the European Commission established a **High-Level Expert Group on Sustainable Finance** in 2016. The Expert Group's two main tasks were:

- ▶ to improve the contribution of the financial sector to sustainable growth, with a focus on environmental sustainability
- ▶ to strengthen financial stability by incorporating ESG factors into investment decision-making processes

In March 2018, the Commission published an **Action Plan for Financing Sustainable Growth** and approved a package of measures: a unified EU classification system; investors' duties and disclosures; low-carbon benchmarks; and better advice to clients on sustainability topics.

In December 2019, the Commission presented **the European Green Deal**, a roadmap for transforming Europe into the world's first climate-neutral continent by 2050.

### > Stakeholders demand more information on ESG for better decision making

#### Opportunities

**Asset & wealth management**  
– 65 Bn Euro of ESG funds in net inflows between April - June of 2020, pushing total assets to 1 Tn Euro globally

**Sustainable finance market**  
– 250 Bn Euro raised in H1 of 2020 for sustainability bonds, syndicated loans, and equity capital worldwide for sustainability outcomes

**Advisory services for ESG risks** – Helping clients integrate the ESG agenda into their business models for stronger relationships with key stakeholders

#### Challenges

**Limitations in metrics & methodologies** – Better tools to measure carbon footprints and model the impact of climate change

**Inconsistency of ESG issues**  
– Stronger oversight and dedicated committees are needed globally, with a clear board ownership across ESG issues

**Need for strategic ESG approach** – A clear view at the top about what ESG means and what risks it imposes on the company's business and strategy



## Businesses worldwide are forced to adopt new financial requirements

Changing investment behaviour of investors, coupled with significantly rising supervisory expectations of financial sector actors, and the required degree of sustainable disclosures reliability are significantly impacting the business landscape nowadays.

- Business models are aligned with new financial requirements
- New transparency rules are introduced for sustainability disclosures
- Risk management is realigned for environment-related risks
- Financial actors develop approaches for sustainable investments
- PE companies integrate ESG aspects into their M&A processes
- Banks transform credit decision processes towards sustainable financing

## How BDO can help

BDO as a leading global audit and consulting firm offers a wide portfolio of sustainability-related services.

- Assurance services** – regulatory ESG reports, external ESG reports
- Risk advisory services** – risk management, requirements of authorities in the financial sector
- Advisory services** – green bonds, investment decisions, credit business ESG due diligence

- Unlocking potential for 'hidden value'
- Strengthening the company's credibility
- Managing environment-related risks

## Successful case studies

1

**Client description:** Volksbank, a regional bank based in Northern Italy provides financing to private clients (mortgages) and SMEs in four Italian Regions.

**Client objective:** Volksbank aims at gradually strengthening its position as a financial partner for companies characterised by positive performances within the ESG sphere by investing in projects which contribute to achieving targets set by the European Green Deal.

**BDO solution:** BDO co-developed a customised and user-friendly checklist inspired by internationally recognised frameworks (eg: EU Taxonomy, Guidelines on loan origination and monitoring, etc.) and best practices (eg: ESG rating models) that Volksbank can use in order to identify firms and projects that fit their ESG criteria.

2

**Client description:** Haugesund Sparebank and Flekkefjord Sparebank are two small to medium sized savings banks on the west coast of Norway.

**Client objective:** Both banks were keen to develop a strategic approach to sustainability. Through dialogue with BDO, the banks agreed to work together on a project for developing their sustainability strategies.

**BDO solution:** BDO designed and led the process for developing sustainability strategies for the two banks. The process focused on broad competence development and involvement throughout the organisation. Through a materiality assessment, collected input from the banks' employees and discussions in the project group led by BDO, each bank landed on the SDGs on which they will focus their strategic efforts.

The strategy development phase focused on solidifying relevant goals, measures and KPIs for each SDG. The final output was a well-developed strategy, concrete goals and a clear action plan for implementation.

3

**Client description:** Special mandate of the Supervisory Board regarding compliance with the requirements of BaFin with regard to sustainability

**Client objective:** Status quo- and gap-analysis

**BDO solution:** Application of the self-developed BDO sustainability regulatory checks (SRC) with gap analysis and recommended actions

## Connect with us



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