European Dimension in International Finance: Focus on digitalization and sustainability

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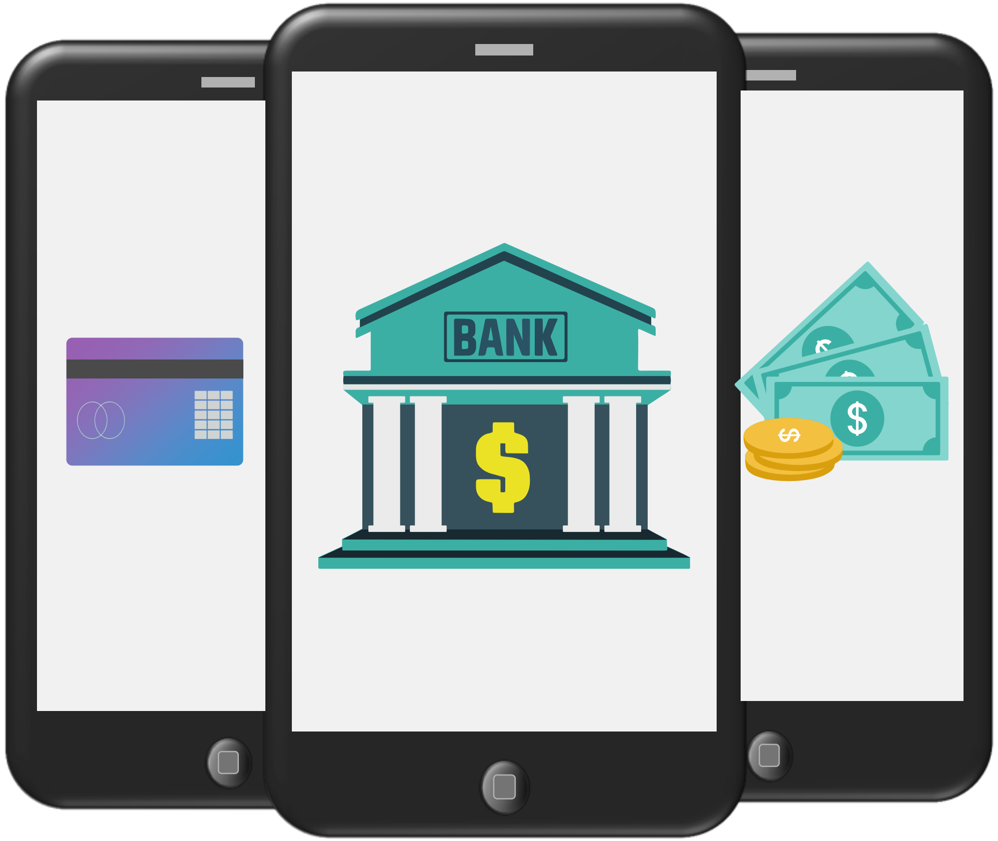
During the lectures we cover:

- ✓ Digital finance
- ✓ European Digital finance package
- ✓ Digital Transformation of business in the EU
- ✓ Sustanable digitalization in SME
- ✓ Sustanable Finance
- ✓ Sustainable Finance: Action plan
- ✓ ESG standards
- ✓ EU Taxonomy

What is digital finance?



Digital finance is the term used to describe the impact of new technologies on the financial services industry. It includes a variety of products, applications, processes and business models that have transformed the traditional way of providing banking and financial services.

Digital Finance Package (September, 2020)

- Digital Finance Strategy
- Retail payments Strategy
- Legislative proposals for an EU regulatory framework on crypto-assets
- Proposas for an EU regulatory framework on digital operational resilience

Digital Finance strategy - priorities

Removing fragmentation in the Digital Single Market

- Enabling EU-wide interoperable use of digital identities
- Facilitating the scaling up of digital financial services across the Single Market

Adapting the EU regulatory framework to facilitate digital innovation

- Enabling EU markets in crypto-assets and tokenised financial instruments
- Promoting cooperation and the use of cloud computing infrastructure
- Promoting investments in software by adapting prudential rules on intangible assets
- Promoting the uptake of artificial intelligence tools
- Ensuring a future proof legislative framework on an on-going basis

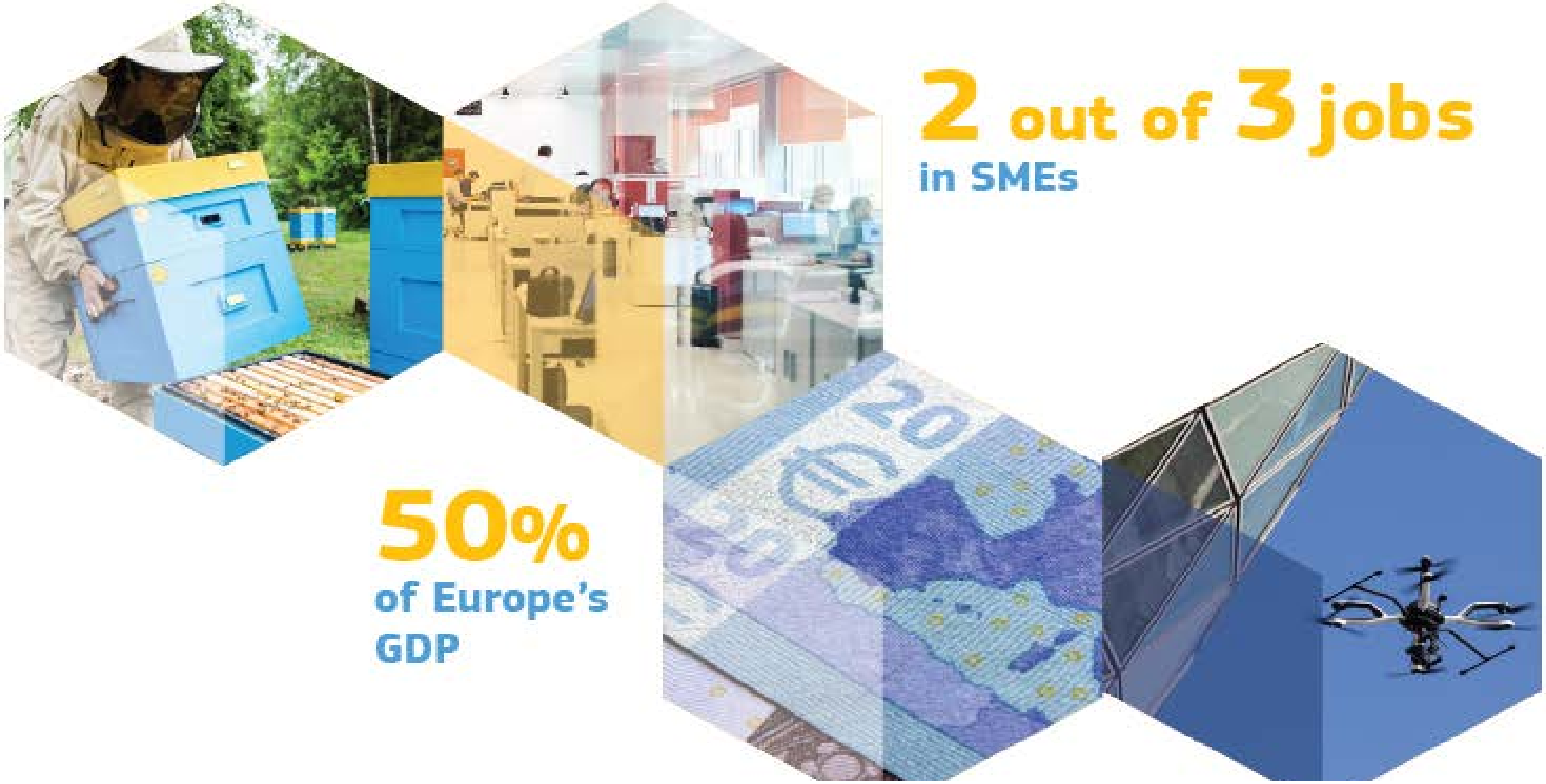
Retail Payments Strategy

This strategy focuses on the following four key pillars, which are closely interlinked:

- increasingly digital and instant payment solutions with pan European reach;
- innovative and competitive retail payments markets;
- efficient and interoperable retail payment systems and other support infrastructures; and
- efficient international payments, including remittances

SMEs significance in EU

25 million SMEs in Europe



2 out of 3 jobs in SMEs

50% of Europe's GDP

50% of all SMEs undertake innovation activities

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SME criteria

What is EU SME criteria?

→ staff headcount

→ annual turnover

→ annual balance sheet total

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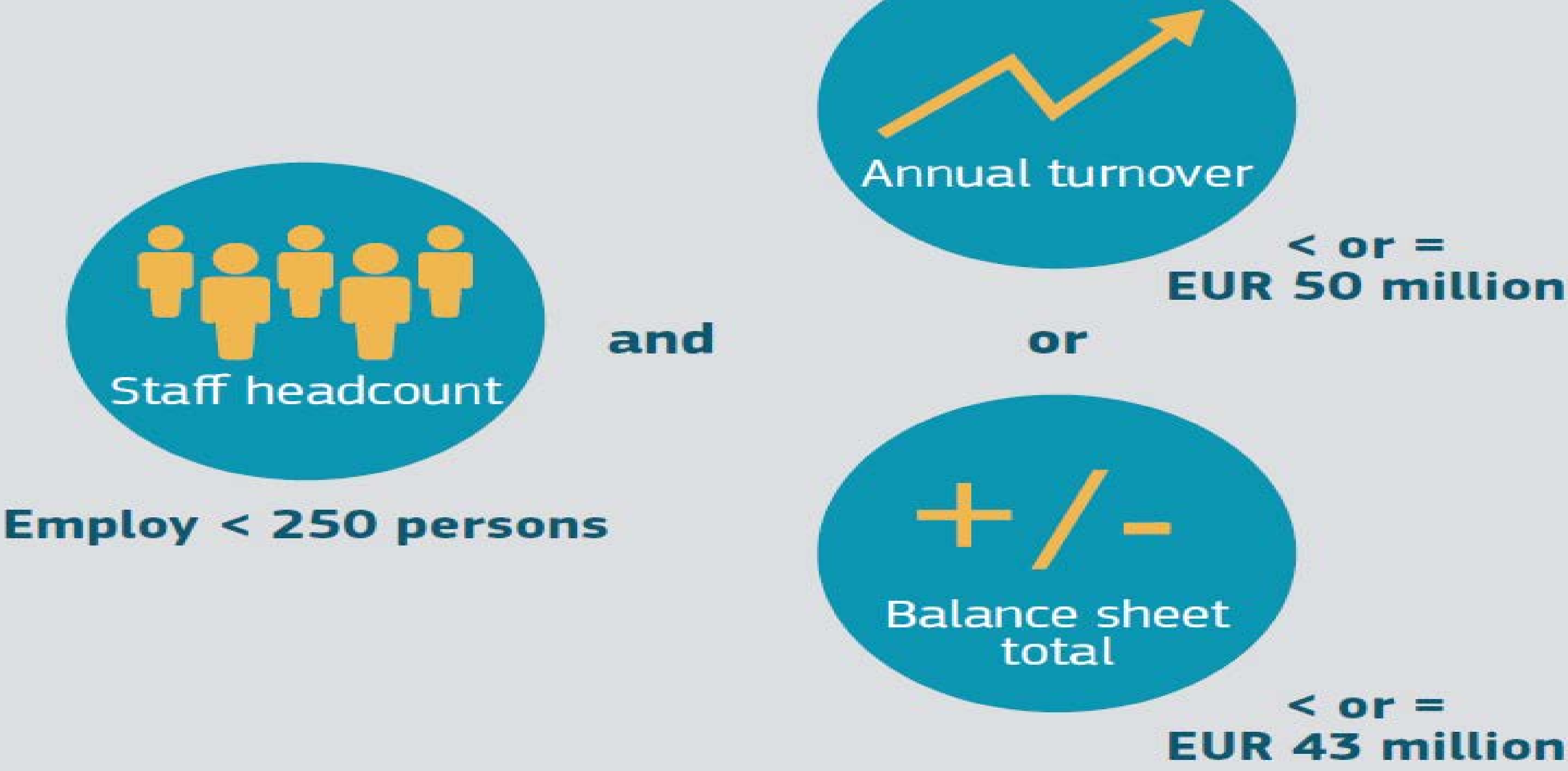
Annual turnover
< or =
EUR 50 million
Staff headcount
and
or
Employ < 250 persons
+/-
Balance sheet total
< or =
EUR 43 million

Types of SMEs

→ **Micro-enterprises** employ fewer than 10 persons and annual total turnover or annual balance sheet does not exceed EUR 2 million

→ **Small enterprises** employ fewer than 50 persons and annual total turnover or annual balance sheet does not exceed EUR 10 million

→ **Medium-sized enterprises** employ fewer than 250 persons and annual total turnover does not exceed EUR 50 million, or annual balance sheet does not exceed EUR 43 million

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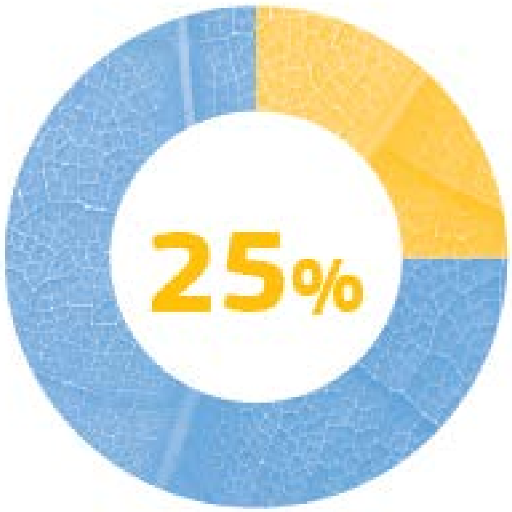
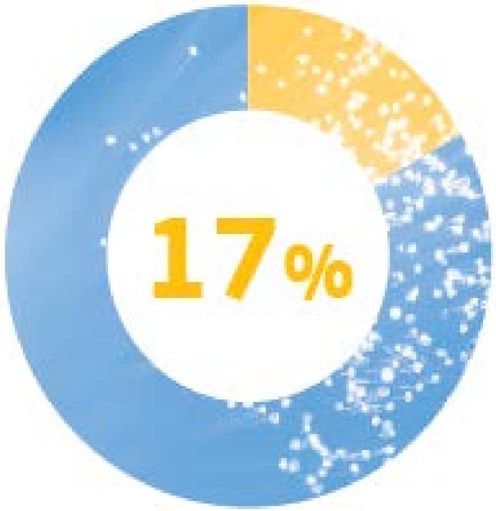
SMEs Strategy in EU

The EU will support SMEs in 3 key areas:

1. **The sustainable and digital transitions**



of EU SMEs work on green products or services



of SMEs have successfully integrated digital technologies, compared to 54% of large companies

2. Doing business freely in the Single Market and beyond, notably by cutting red tape

SMEs need improved access to markets. The SME strategy will reduce barriers within the Single Market and open up access to finance to cover the investment needed for the ecological and digital transition.

SMEs Strategy in EU

3. Better access to finance

Hurdles to accessing finance

10%

Only 10% of European SMEs' external financing is from capital markets

11%

Only 11% of businesses in Europe consider equity as a viable financing option while only 1% have used it

Venture capital investments in Europe are many times smaller than in the US, with three times fewer scale-ups

Actions

Creating an **SME Initial Public Offering (IPO)** Fund with investments channelled through a new private-public fund set up under the InvestEU programme and launching a gender-smart finance initiative to stimulate funding for female-led companies and funds

Create the ESCALAR initiative, a mechanism to **boost the size of venture capital funds** and attract more private investment, to help high-potential enterprises to grow

Sustainable Finance 1.0	Exclusion			
Sustainable Finance 2.0	ESG integration			
Sustainable Finance 3.0	Impact investing	Green bonds Social bonds	Impact lending Microfinance	Microinsurance

Sustainable finance 1.0

The first generation of sustainable finance initiatives emerged in the1990s and early 2000s. At that time there was a growing concern about the negative impact of economic growth and industrialization on the environment and society

- Practice of excluding certain investments on specific criteria like tobacco, arms, fossil fuels and etc.

Sustainable finance 2.0

The second generation of sustainable finance emphasizes the integration of ESG factors into traditional financial analysis.

The products emerged in this generation is green bonds, social impact bonds, sustainable ETFs, and other financial instruments

Sustainable finance 3.0

Currently Europe is implementing the Sustainable finance 2.0 stage.

According to antipations Sustainable finance 3.0 could encompass the idea of regenerative finance, which involve investments in regenerative agriculture, ecosystem restoration, renewable energy, other initiatives that promote restorative or regeneration approach

What Is ESG

ESG is used as a **framework to assess how a company manages risks and opportunities that shifting market & non-market conditions create.** These shifts include changes to:

- **Environmental Systems**
- **Social Systems**
- **Economic Systems**

Impact the entire landscape a company operates in.

ESG is **not about values.**

ESG is **about the ability to create & sustain long-term value in a rapidly changing world,** and managing the risks & opportunities associated with these changes.

Mechanisms to ensure the integration of social and environmental factors

1. **Environmental, social and governance (ESG)** criteria refer to investment criteria that consider environmental, social and governance factors alongside traditional financial considerations.
2. **Green bonds** are debt securities that raise funds for specific environmental projects, such as renewable energy or sustainable transportation.
3. **Social Bonds -** These are similar to green bonds, but are used to raise funds for social projects such as health care or affordable housing.

Mechanisms to ensure the integration of social and environmental factors

4. Sustainability-related loans - These are loans tied to sustainable development goals, such as reducing greenhouse gas emissions, and can lead to lower interest rates if the goals are met.

5. Impact investing refers to investments made with the intention of having a positive social or environmental impact, as well as a financial return.

6. ESG Integration - This involves integrating ESG factors into investment analysis and decision-making.

7. Corporate Sustainability Reporting - This includes disclosure of environmental, social and governance information by corporations to stakeholders.

WHAT IS TAXONOMY?

- TAXONOMY comes from Greek taxis, meaning arrangement or division and nomos meaning laws.

It is the science of classification.

- It provides a conceptual framework for discussion, analysis or information retrieval
- Good taxonomy should be simple, easy to remember and easy to use

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THE BIGGEST CHALLENGE OF OUR TIME An European Green Deal

- Transform the EU into a modern, resource-efficient and competitive economy
- No net emissions of greenhouse gas by 2050
- Economic growth decoupled from ressource use
- No person and no place left behind
- Enough financing to ensure the change
- Need of a conceptual framework to direct green and sustainable investments

THE AIM OF THE EU TAXONOMY

The tool to reach the objectives of the European Green Deal

- create security for investors
- protect private investors from greenwashing
- help companies to plan the transition
- mitigate market fragmentation
- scale up sustainable investments to help achieve the Green Deal objectives

THE EU TAXONOMY LEGISLATION

A Regulatory package to Support the European Green Deal

- It includes the main legislation (the Taxonomy Regulation) to set the principles completed by Delegated Acts to clarify the criteria
- It shapes a common language for green investments that investors can apply internationally when projects have a «substantial positive impact on the climate and the environment»
- It includes a «Green list» to classify sustainable activities