Sustainable Financing and Investing Survey– Europe Report

European issuers embrace sustainable finance

Key insights article

European issuers are showing increasing commitment to green and sustainable financing, according to HSBC's survey of capital markets issuers and investors in the region.

Executive Summary

- Green and sustainable finance is rising in importance to European issuers. 76% say environmental and social issues are very important to them.
- 35% of European issuers say their feelings about the importance of sustainability have strengthened since the pandemic, whereas fewer than 15% of investors report this.
- Issuers and investors agree on the potential presented by green and sustainable infrastructure investment.
- European issuers are embracing disclosure. 71% disclose information about their carbon footprint, compared with the global average of just 54%.

With a history of innovation in sustainable finance – the world's first green bond was issued to a group of Swedish investors – Europe is seen as deeply engaged in green capital markets.[1] And, the numbers serve to back this up — €120 billion was invested in sustainable funds in 2019, twice as much as the previous year.[2]

Issuers step to the fore

Our survey of capital markets issuers and investors in Europe3 reveals some divergence in thinking about sustainable finance between issuers and investors in the region. While interest in sustainable capital markets has traditionally been driven by investors, the balance of power appears to be changing, with 76% of European issuers saying environmental and social issues are very important to them, scoring well above the global average of 62%. In comparison, only 43% of investors rate these issues as very important.

European issuers are motivated by a number of factors when it comes to engaging in sustainable finance. Two thirds regard caring about the world and society as the right thing to do. More than 40% say that NGOs and pressure groups want them to take ESG factors into consideration, and 36% say their customers want them to take ESG into account. Notably, over a third – above the global average – believe that ESG can improve investment returns.

In contrast, European investors appear to be more accepting of inequality and seem to minimise the significance of climate change. 12% of European investors view climate change as a minor problem, whereas globally only 4% of investors feel this way. Furthermore, they view efforts to achieve the UN Sustainable Development Goals (UN SDGs) as falling under the purview of governments instead of investors. And, unlike their issuer counterparts, they feel more pessimistic about the ability of ESG strategies to generate returns.

European investors do stand out, however, in that they exceed all their global peers in feeling responsible for avoiding investments that have bad outward effects on the environment and society. Sixty-one per cent of them feel this way, compared with the global average of 55%.

[1] https://www.worldbank.org/en/news/immersive-story/2019/03/18/10-years-of-green-bonds-creating-the-blueprint-for-sustainability-across-capital-markets
[2] https://www.ft.com/content/c2952357-c28b-4662-a393-c6586640404f
[3] Issuers and investors from the following countries were queried: United Kingdom – 110 (primary country); France – 65 (primary country); Germany – 65 (primary country); Italy – 20-40 (secondary country); Spain – 20-40 (secondary country); Nordics – 20-40 (secondary country); Benelux – 20-40 (secondary country); Russia – 20-40 (secondary country).

The Covid refocus

Covid-19 has had an enormous influence on markets, businesses and individuals and European issuers have felt the impact as well.

For issuers, the pandemic has strengthened their feelings about sustainability, with 35% saying that sustainability is important and 40% saying that social welfare is a more important part of sustainability than they had thought. Significantly, fewer European issuers have diminished the importance of sustainability as a result of Covid-19 and they now see issues such as sensitivity to society's needs, scenario planning and stress testing, supply chain resiliency and employee wellbeing as more important than before.

Investors are registering the effects of the pandemic a bit differently than issuers, with fewer than 15% reporting that it has strengthened their belief in the importance of ESG. And, unlike issuers, investors are also downgrading the importance of some ESG issues, including biodiversity, government relations, and employee wellbeing.

Infrastructure takes top spot

One area where European issuers and investors are in clear agreement – green and sustainable infrastructure investment is seen as having great potential. Amongst all survey respondents, European issuers show themselves as being some of the most eager for sustainable infrastructure opportunities, with a particular interest in opportunities related to emission-free energy, such as wind, tidal and solar power. They also lead the globe in their support for hydrogen power and run a close second to the Middle East in their support for low-carbon fuels.

European investors also show great enthusiasm for infrastructure investment, believing that clean renewables offer the greatest potential. In addition to this, they show an interest in water/ wastewater and smart cities. A key difference for European investors is that, unlike issuers, they express less enthusiasm for the potential offered by hydrogen and low-carbon fuels.

Europe embraces disclosure

Disclosure of environmental and social information is viewed in a largely favourable light by European issuers. Globally, 11% of issuers find the disclosures they make excessive, but in Europe, this number falls to below 4%. On top of that, 31% of European issuers expect to increase disclosures – compared with 24% globally.

As proof of how Europe has embraced disclosure, the region leads the globe in reporting their carbon footprint – 71% of issuers say that they disclose this information, compared with the global average of 54%. They are also ahead of the global average on other reporting metrics yet fall behind on disclosing strategies for climate change and aligning with the Paris Agreement.

Financing the green future

The European Union has set out an ambitious plan – known as the European Green Deal – to become climate neutral by 2050. Public and private investments form a core part of how the bloc will achieve this transition, with an estimated €1 trillion in sustainable investments needed over the next decade.[4] Meanwhile, the UK's 25 Year Environment Plan aims to improve the environment within a generation.5 Green financing is regarded as central to the success of this goal.6 With this enormous transition on the horizon, Europe represents great potential for green and sustainable capital markets.

[4] https://ec.europa.eu/regional_policy/en/newsroom/news/2020/01/14-01-2020-financing-the-green-transition-the-european-green-deal-investment-plan-and-just-transition-mechanism#:~:text=The%20EU%20will%20provide%20tools%20for%20investors%20by,to%20approve%20State%20Aid%20for%20just%20transition%20regions.

[5] https://www.gov.uk/government/publications/25-year-environment-plan/25-year-environment-plan-our-targets-at-a-glance

[6] https://www.gov.uk/government/publications/green-finance-strategy