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Impact of Environmental, Social and Corporate Governance (ESG) practices in Bulgarian SMEs access to finance

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Impact of Environmental, Social and Corporate Governance (ESG) practices in Bulgarian SMEs access to finance

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Impact of Environmental, Social and Corporate Governance (ESG) practices in Bulgarian SMEs access to finance

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ABSTRACT:

Given the European Union's commitments of achieving net zero by 2050 and advocating Environmental, Social, and Corporate Governance (ESG) targets, ESG is having an increasingly larger impact on businesses (Alamillos & De Mariz, 2022). Various studies have concluded that if a company has a high ESG score, it typically borrows at a cheaper rate, receives more favorable credit terms and conditions, has higher valuation, achieves better financial performance, as well as other benefits relating to its access to finance (Jang et al., 2020; Srivastava et al., 2022; Albuquerque et al., 2019; Friede et al. 2015). The same studies focus, however, predominantly on large companies in developed economies. On the other hand, the issue of the financing gap in Small and Medium-Sized Enterprises (SMEs) is experienced globally and especially in developing economies (World Bank, 2019; PwC, 2021). Given the positive impact of ESG on companies access to finance as found in existing literature and the presence of the SME finance gap in developing economies, this research investigates the impact of ESG practices on Small and Medium-Sized Enterprises access to finance in the context of Bulgaria. An overview of current and planned ESG-related European Union regulations impacting SMEs is provided. With a focus on Bulgarian SMEs, a total of 27 experts in the fields of banking, venture capital, angel investing, SME ownership or management, and ESG consulting were interviewed. This study adds to the limited body of research pertaining to the impact of ESG on SMEs financing in a developing economy setting. The research concluded that Bulgarian SMEs engaged in ESG have better debt and equity financing terms, more opportunities and dedicated channels for receiving financing, as well as benefits adding to their competitiveness, such as better access to international supply chains, reduced firm risk, tax exemptions, ability to attract and retain top talent, and higher potential for top line growth, among others.

KEYWORDS:

ESG; SME access to finance; sustainable finance; SME financing gap; ESG in developing economies

JEL classification: M, Q

AUTHORS:



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1. Introduction

1.1 BACKGROUND

Small- and Medium-Sized Enterprises (SMEs) have an important role in economic development and especially in the context of developing economies (Kumar, 2017). In developing countries, SMEs are responsible on average for more than half of the employment. Apart from their contribution to employment, SMEs are key for wider economic growth, economic diversification and are often a source of innovation. As an important component of the broader economy, SMEs are studied in detail by global organizations such as the World Bank, International Monetary Fund (IMF), International Finance Corporation (IFC) and others. A significant research focus is given to the factors that are hindering the growth and development of SMEs in different contexts (IFC, 2010). A World Bank Report concluded that among SMEs globally, the most commonly cited growth limiting factor is access to finance. In the context of developing economies, 32% of small business and 27% of medium businesses experience access to finance as a significant obstacle. Given the role that SMEs have, barriers to their access to finance act as a bottleneck and have a negative impact on the broader economy's capacity to grow and innovate.

A current phenomenon gaining increasing regulatory, academic, and business focus – the company's commitment to Environmental, Social, and Corporate Governance – is impacting movement of capital between finance-providers and businesses (O'Dwyer & Edgecliffe-Johnson, 2021). Movement of capital is shifting towards businesses with more stakeholder-led agendas that exhibit ESG objectives and commitments to stakeholders beyond the immediate shareholders. ESG has already had a significant impact on capital markets and has determined the investment of trillions of dollars in ESG-mandated funds (Fink, 2022). Moreover, Larry Fink, the Managing Director of the largest asset management company – BlackRock – argued that there are no signs of interest in ESG slowing down any time soon (ADV Ratings, 2023; Fink, 2022).

In the context of large corporations in developed economies, a company's ESG practices and commitments have been found to have several positive implications for its access to finance - lower cost of debt (Jang et al., 2020), better access to debt during crises (Srivastava et al., 2022), better stakeholder relationships, lower risk of default (Albuquerque et al., 2019), and improved corporate financial performance (Margolis et al., 2009; Friede et al. 2015). Recent evidence from the context of China suggested that high ESG performance is a strong mitigator for financial risk at the time of the Covid-19 pandemic and companies with high ESG score were increasingly outperforming those with lower scores (Broadstock et al., 2020). Furthermore, Jang et al. (2020) concluded that the ESG scores of the Korean companies revealed information about their creditworthiness (2020). High ESG score or a company's commitment to ESG, signals the company's dedication to long-term success and stakeholder relationships, and reduces the informational asymmetry between finance providers and SMEs. Understanding and addressing the informational asymmetry in the context of SMEs' access to finance is key in narrowing the SME financing gap, estimated by the IFC to be at 5.2 trillion dollars per year in developing countries (Huang et al., 2014; World Bank, 2019).

In the context of Bulgarian SMEs, a World Bank's study on 772 Bulgarian businesses, concluded that SMEs experience bigger financing challenges than larger companies. Out of all companies perceiving finance as a 'major obstacle' or 'very severe obstacle' 93.1% are SMEs (2019).

In line with SME theory, SMEs in Bulgaria are key for wider economic development by employing 75% of the workforce and contributing 65% of the domestic product (PwC, 2021). Developing the SMEs capacity and productivity has been at the forefront of policy makers' agenda and debates. Providing better access to finance and dedicated financial instruments for SMEs is one of the six priorities of the Bulgarian Ministry of Economy.

The timing of the current research is important in conveying its rationale and relevance. The European Union which is at the forefront of driving the net zero journey has already introduced stringent non-financial reporting requirements, including ESG, and has planned the introduction of more ESG requirements in the near future (Alamillos & Mariz, 2022; SeeNews, 2022). There is little debate that ESG requirements and reporting will be even of bigger importance for Small and Medium-Sized Businesses as the Corporate Sustainability Reporting Directive (CSRD) introduced by the EU aims to make sustainability reporting as important and scrutinized as financial reporting (Mazars, 2023).

Apart from ESG pressures coming from regulatory bodies, SMEs and businesses in general are facing a demographic that is growing increasingly interested and alarmed by ESG-related issues (Townsend, 2018). In a study published by Forbes, Townsend concluded that 88% of consumers are actively favoring a business that is making a difference. People under the age of 30 consider climate change and destruction of nature to be the most critical issue worldwide and businesses not aligned to pro-environmental or social agendas risk disappointing 88% of their customers (World Economic Forum, 2018). Businesses often lack the expertise to navigate through the complex and evolving ESG regulations as well as to respond to the changing consumer sentiment towards company's purpose and demand for ESG consulting services is growing significantly (O'Dwyer & Edgecliffe-Johnson, 2021). Established auditing and business service companies such as the Big 4 (KPMG, Deloitte, EY, PwC) are investing heavily in building internal expertise in ESG-related issues in order to be able to serve existing and future demand for ESG services. To build capacity, the Big 4 are committing significant funds – PwC announced 12\$ bln investment plan and the hire of 100,000 employees while the remaining consulting firms are making similar commitments.

In Bulgaria, ESG reporting by businesses is lagging Western and Central European companies. In their research titled 'Mapping the ESG Behavior of European Companies', Lamandi et al. study the ESG behavior of 1165 European businesses, but exclude Bulgaria and Romania since as of 11 January 2019 no company headquartered in these countries reported on its ESG performance.

Given the importance of SMEs for the economy, the broad SME finance gap, and the impact of ESG on capital markets, the objective of the present research is to collect and analyse insights from experts in the fields of ESG and SME finance and to report on the impact of ESG practices on Bulgarian SMEs access to finance. As research already exists for larger companies in developed economies, the scope of the current research is limited to Small- and Medium-Sized Enterprises in Bulgaria.

The objective of the current study is to collect and analyse data from experts with experience in different financing domains – banking, venture capital (VC), and angel investors, as well as SME owners and executives and ESG consultants.

This study is expected to stimulate the interest of SME owners and executives, to inform them about the potential benefits of ESG practices when it comes to access to finance, offer succinct description of key ESG concepts, as well as report on experts' opinions on the implications of ESG for the Small and Medium Enterprises in a developing economy and the country of Bulgaria in particular. Given the rapid developments in ESG with regards to regulations and people's expectations as well as the lagging adoption of ESG practices in Bulgarian SMEs, the current research also serves as a call to action for SMEs to consider the implications associated with adopting and neglecting ESG practices.

2. Literature review

Concepts relating to ESG and finance

Manojlovic and Tjessem provide a simple, easy to understand definition for ESG practices, namely 'ESG is a framework to adopt and assess how a business operates with regards to sustainability and social impact' (2021). In terms of the dimensions that fall into each of the ESG components, there are several definitions used and referred to. Two of the most commonly referred to ESG definitions or lists of dimensions are the ones suggested by the European Banking Authority (EBA) and the Sustainability Accounting Standards Board (SASB) (Li et. al., 2021). Since the SASB is US-based while the EBA is EU-based and the EU perspective relates more to the focus of the research, the list of ESG aspects proposed by EBA is presented in Figure 1. Although SASB lists more ESG aspects than EBA, the two lists are not markedly different.

Environmental (E)	Social (S)	Corporate Governance (G)
<ul style="list-style-type: none"> • Greenhouse gases (GHG) emissions • Energy consumption and efficiency • Air pollutants • Water usage and recycling • Waste production and management (water, solid, hazardous) • Impact and dependence on biodiversity • Impact and dependence on ecosystems • Innovation in environmentally friendly products and services 	<ul style="list-style-type: none"> • Workforce freedom of association • Child labour • Forced and compulsory labour • Workplace health and safety • Customer health and safety • Discrimination, diversity, and equal opportunity • Poverty and community impact • Supply chain management • Training and education • Customer privacy • Community impacts 	<ul style="list-style-type: none"> • Codes of conduct and business principles • Accountability • Transparency and disclosure • Executive pay • Board diversity and structure • Bribery and corruption • Stakeholder engagement • Shareholder rights

Figure 1. ESG Criteria Breakdown into Factors; Source: Li et al. (2021)

To introduce a common language of understanding, mitigate greenwashing, and support efforts in achieving the net zero goal by 2050, the EU introduced the Taxonomy regulation which was approved by the European Parliament and Council in June 2020 (European Commission, n.d.-b). The Taxonomy sets out to define what activities are sustainable and presents a common classification system of sustainable activities. The Taxonomy itself is an evolving system with latest modifications approved in principle as late as 13 June 2023, which made contributions to the EU Taxonomy criteria for water and marine resources activities, circular economy, biodiversity, and ecosystems restoration. In an effort to reduce greenwashing and false claims, the Taxonomy requires business to disclose additional information and alignment to the Taxonomy criteria when having environmental labels and claims.

The sustainable finance section of the European Commission website provides a user-friendly, up to date 'EU Taxonomy Compass', 'EU Taxonomy Calculator', 'EU Taxonomy User Guide' and FAQs that provide valuable information for SMEs looking for finance in the EU.

In her meta-study titled 'The Making and Meaning of ESG', Pollman investigates how the meaning of the term ESG has evolved since its conception in 2004 until present day (2022). She argued that the acronym is used as a common denominator for environmental, social and governance discourse and there is no fixed meaning beyond that. The term could have a meaning by itself or be followed by 'criteria', 'standards', 'framework', 'issues', 'goals', 'targets', 'activities', etc. It could also refer to a set of criteria to assess a company's sustainability performance, a framework for investors to sort out sustainable investment opportunities or could well be used as a synonym for CSR. Although in popular use the term can take up a variety of meanings depending on the context and use, regulations are in place to provide a common perspective on ESG.

ESG regulatory directives and standards

Since 2017, the EU has been laying the critical groundwork for the regulatory framework to enable and support allocation of capital to sustainable purposes (Alamillos & De Mariz, 2022). In their study on 'How can EU ESG regulation impact businesses globally' the researchers present the so-called 'Brussels Effect' where through the market mechanism, regulations transcend their original borders or jurisdictions and impact businesses on a global scale. The authors also present another type of global power apart from military and economic – regulatory power, and argue that in the context of ESG, the EU has been a global regulatory power. An overview of the most critical ESG-related regulations is thus needed in answering the research question of the current study. Although the regulations described below do not yet apply to SMEs directly (which is planned for 2026), there are indeed ways already that the same regulations impact Bulgarian SMEs (or any other EU SMEs for that matter). Among other market mechanisms, SMEs are also impacted by the Non-Financial Reporting Directive for example since companies within its scope also need to report on the sustainability policies and actions of their supply chain. In a similar way, banks, all of which are within the scope of the NFRD have to report on their sustainability policies, KPIs, etc. and lending to SMEs naturally comprises a part of their business. Furthermore, in relation to the Corporate Sustainability Reporting Directive (CSRD), EU-listed SMEs are subject to the required reporting as well.

Brief descriptions of the most relevant reporting directives are provided below which are based on the actual directive documents available in the respective sections of the European Commission's website:

Non-Financial Reporting Directive (NFRD) – NFRD came into effect in 2017 (European Commission, 2017). Its scope is large public interest entities employing more than 500 employees (European-listed companies, banks and insurance agencies) with a balance sheet total exceeding EUR 20 million or a net turnover higher than EUR 40 million. NFRD requires the entities in scope to report on non-financial information and provides non-binding guidelines.

According to the European Commission, NFRD was enacted as part of the journey to fulfilling the goals of the Paris Climate Agreement. The NFRD contributes to the Paris Agreement by ensuring greater transparency which is expected to enable financial flows to be allocated in a way that leads to emissions reduction and climate-conscious economic growth. Disclosures are to be provided on the group level rather than for each individual subsidiary or affiliate.

As stated in the Purpose section of the European Commission document communicating the NFRD, its goal is to help businesses report environmental, social, and corporate governance related information in a high-quality way that is consistent and comparable and provides for transparency. The non-financial statement in response to the NFRD is expected to provide the company's fair assessment of the impact of its activities and disclose all non-financial and material information stakeholders would find relevant. The principle of reporting is the 'comply or explain' basis, which in layman terms means companies should comply with the guidelines or if not, they should explain why.

Article 1 of the Directive provides information, examples and suggested KPIs for the required information to be disclosed which include:

- i) Brief description of business model;
- ii) Policies and due diligence (e.g. how are climate-related risks identified, assessed and managed; workplace policies, etc.);
- iii) Outcome of policies (e.g. carbon emissions, use of hazardous materials, plans to reduce footprint);
- iv) Principal risks;
- v) Key Performance Indicators (KPIs) (e.g. metrics related to climate-related risks and issues);
- vi) Thematic aspects relating to environmental, social and employee, respect for human rights, anti-corruption and other matters (e.g. energy performance, implementation of International Labor Law conventions, diversity issues, health and safety at work, practices for addressing employee and customer complaints, human rights risks and impacts, anti-bribery policies);
- vii) Supply chain (e.g. monitoring suppliers on their labor practices, respect for human rights, greenhouse gas emissions (GHG), environmental pollution, etc.) – a key section of the NFRD that relates to the research question.

- Corporate Sustainability Reporting Directive (CSRD) – the CSRD came into force on 5 January 2023 (European Commission, n.d.-c). The new regulation builds upon the NFRD by modernizing and strengthening the requirements for social and environmental information to be reported. A larger set of companies is within scope for the CSRD compared to the NFRD, by also including listed SMEs and directly applying to 50,000 companies in total, which is more than 4 times the scope of the NFRD. Main purpose of the new regulation is to make it possible for investors and other finance providers to have

the necessary information to assess what impact companies have on people and the environment as well as to encourage a culture of transparency. The first report regarding CSRD will be published in 2025 for the 2024 financial year. The proposed guidelines and standards are not yet finalized and there is a 4-week period starting 6 June 2023 in which feedback from the public can be submitted before the European Commission finalizes the Directive. According to the Directive communication letter, efforts are made to increase interoperability and convergence of standards together with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI).

The draft CSRD guidelines as of June 2023, signed by the European Commission President Ursula von der Leyen and currently open (as of July 2023) for public feedback include the following items:

- i) Description of business model;
- ii) Outline of time-bound sustainability targets;
- iii) Outline of the role of leadership and management in sustainability policies and their expertise;
- iv) Outline of sustainability policies;
- v) Indication of how ESG factors in employee compensation schemes;
- vi) Outline of the business' due diligence process with regards to ESG;
- vii) Description of adverse impacts associated with the business itself and its value chain;
- viii) Information on the principal risks associated with sustainability issues;

Businesses that fall in the scope of the CSRD have to report on what part of their activities is covered by the EU Taxonomy Regulation, which is described next.

- EU Taxonomy Regulation – the EU Taxonomy Regulation came into effect on 12 July 2020 (European Commission, n.d.-d). The Taxonomy is meant to serve as a common source of truth or a classification system as to what constitutes a sustainable economic activity. According to the European Commission (EC), the Taxonomy is a key market transparency enabler to help direct capital to economic activities in line with the net zero goal by 2050. In layman terms, the Taxonomy enables the use of common definitions across a variety of financial and non-financial companies and thus mitigates 'greenwashing'.

Article 9 of the EU Taxonomy Regulation puts forward the following six climate and environmental objectives:

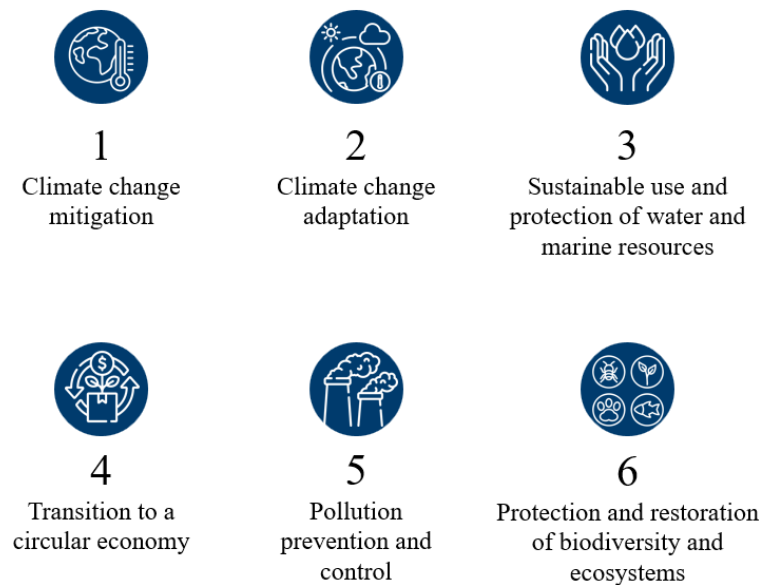


Figure 2. The Six Climate and Environment Objectives of the EU Taxonomy; Source: European Commission (n.d.-d)

According to the Taxonomy Regulation, for an activity to be considered as environmentally sustainable, it needs to satisfy the following four conditions (European Commission (n.d.-d):

- 1) Making a substantial contribution to at least one climate or environmental objective;
- 2) Doing no harm to any of the other objectives;
- 3) Complying with minimum safeguards;
- 4) Complying with the technical screening criteria set out in the Taxonomy Regulation acts.

Furthermore, the European Commission's website offers the so-called "EU Taxonomy Navigator", which includes EU Taxonomy Compass (visual representation of activities included in the Taxonomy), EU Taxonomy Calculator (a detailed, easy-to-follow reporting obligations guide), FAQs and a User Guide for non-experts. The Taxonomy Regulation is dynamic and evolving, with planned introduction of Acts aimed at broadening its scope.

Sustainable Finance Disclosure Regulation (SFDR) – The SFDR was introduced in December 2019 and started to apply in 2021 (European Commission, n.d.-e). In scope for the SFDR are fund managers, financial advisors, and insurers. SFDR's purpose is to ensure transparency in the reporting of financial market participants and help investors make informed decisions regarding investment in sustainable activities. Hence, the SFDR is key in helping to attract funds to enable the net-zero journey by 2050. SFDR employs the double materiality principle, meaning financial market participants need to disclose how their financial decisions impact the environment as well as how environmental issues could affect their portfolio. The main components of the information required under the SFDR are:

- i) Description of double materiality of investment decisions;
- ii) Description of how sustainability risks and considerations are integrated in due diligence process and employee remuneration;
- iii) Description of adverse sustainability impacts.

SFDR also requires fund managers to classify their funds into one of three categories – Article 6, Article 8, and Article 9, depending on the ESG objectives and impacts of the fund. The classification into Article 8 and Article 9 requires further ESG disclosures as well.

Although only listed SMEs could be directly in scope for the CSRD described above, all the regulations described have an impact on SMEs looking for finance. One way the regulations translate to the SMEs is through companies reporting sustainability policies along the supply and value chains under the NFRD and the CSRD, through banks reporting on their sustainable activities and metrics while providing loans to SMEs under the NFRD, through asset managers reporting on their portfolios under the SFDR, or through the EU Taxonomy in case the SMEs are making any sustainable impact claims.

ESG scoring

ESG as a term is a relatively new phenomenon with its inception dating back to 2004 (Li et. al., 2021). Despite the significant and growing interest and focus from academia, business, and public policy on the topic, there still exist challenges with the acceptance of a single ESG scoring framework. There is no single standard or criteria to measure, benchmark and compare ESG practices and commitments which limits analysis and investigation. ESG ratings are provided by upwards of 70 entities excluding banks, research centres, and governments (Cornell, 2020). For an ESG score to be meaningful and contribute towards an ESG agenda, it needs to be able to be used in different sectoral and company contexts (Li et al., 2021). This is far from the case currently and there is a great deal of criticism on the existing ESG scores being used.

Some of the largest, most well-known rating bodies are Vigie Eiris (part of Moody's), ISS-oekom, Sustainalytics (part of Morningstar) and MSCI ESG Rating (Ferrazzi & Tieske, 2022). Some of the issues are that even the biggest agencies cover only a pool of companies in the range of one thousand to ten thousand businesses and rely on data provided by the companies which can often lead to questionable results (CFA Institute, 2020).

Another criticism of existing ESG scoring frameworks is that they cannot be reconciled to a single approach. The methodologies track different metrics, have different weights for each of the components and the scores generated by different agencies for the same companies have very low correlation (Berg et al., 2019 as cited in Ferrazzi & Tieske, 2022).

ESG impact on debt financing

The existing literature covers a wide range of impacts of companies' ESG practices on their debt financing. For large companies in the context of developed economies research has concluded that businesses with a high ESG score have a lower risk of default (Albuquerque et al., 2019). In their study,

Srivastava et al. demonstrated that companies with high ESG scores also have better access to debt during crises and the Covid-19 in particular (2022). This could be explained by the fact that typically businesses engaging in ESG are focused on long-term goals, maintain high transparency and strong relations with stakeholders. For similar reasons, companies exhibiting strong ESG commitments were also found to be able to issue bonds at a lower cost (Jang et al., 2020). In a study by McKinsey & Company titled 'Why ESG is here to stay', the researchers concluded that a higher ESG score translates to as much as a 10% cheaper cost of issuing bonds (2020). One reason for the cheaper cost of debt is because doing ESG reduces the risks associated with the business' 'license to operate' in the broader environment. Another cause provided by McKinsey is top line growth – being able to attract new customers and markets who value sustainable contributions and are willing to pay a premium. Furthermore, since large companies are aiming to improve ESG along their value chain, the possibilities for business-to-business companies are increasing in case they have strong ESG commitments. Also, with proactive ESG commitments, the risk of punitive actions by the regulator is reduced.

In their recent study on 'Achievements and Challenges in ESG Markets', Scatigna et al. aimed to provide novel evidence whether investors and other finance providers reward activity leading to perceived ESG benefits (2021). One relevant conclusion they arrive at is that on average, investors are willing to pay a social premium or 'socium' for social or green bonds which equates to higher than one-notch crediting rating upgrade of the bond. This finding also resonates with the conclusion made by Jang et al. that the ESG score of the company is correlated with its credit risk score and signals valuable information regarding the company's credit worthiness.

ESG impact on company valuation

The EU has implemented significant regulations with regards to ESG and is at the forefront of advocating ESG practices and efforts to meet and exceed the Paris Accord goal (Financial Stability, Financial Services and Capital Markets Union, n.d.). The active involvement of regulators does not mean there has not been space for civil society, NGO, or businesses to respond to the public becoming increasingly alarmed by ESG-related issues (Flammer et al., 2019). For example, CDP – a UK-based NGO, has been able to establish a global standard for transparent reporting on emissions across many jurisdictions with relative ease. Today, CDP's standards for transparent reporting are followed by almost all Fortune 500 companies. This is largely driven by the public and investors becoming more demanding of corporations to report on their ESG-related impact and actions. Long-term institutional investors have been particularly strong proponents of ESG disclosures. Research by Boubaker et al. concluded that Corporate Social Responsibility (CSR) carries significant weight in the investment decision making process of long-term institutional investors (2017).

Has the increased focus on CSR and ESG had an impact on how investors value a stock? Classical Finance suggests that decisions are based on the fundamental principles that stakeholders are risk averse and if the risk associated with their investment or action is higher, the risk premium should be higher as well (Ibbotson et. al. 2015, as cited in Manojlovic & Tjessem, 2021). In Behavioural Finance on the other hand, other factors are considered as well, such as investors' moral values, preferences, cognitive errors, as well as other non-risk characteristics. One theory that studies and aims to explain if a non-risk characteristic, such as ESG, has an impact on stock valuation and performance is the

Popularity Theory. Proponents of the Popularity Theory advocate that investors have revealed preferences for certain stock characteristics that are exhibited in the stock market. Stocks that have such characteristics are expected to be priced higher on the market. In other words, for two stocks with same expected cash flows and differing only in one exhibiting a preferred characteristic, the one with preferred characteristic is going to generate lower overall returns due to its higher initial price. Before Ibbotson et al. such preferred characteristics were considered to be company brand, reputation, etc. Manojlovic and Tjessem's research on the annual returns of close to 6,000 stocks over the period of 2003-2020 aimed to assess whether the ESG scoring of a company could impact its stock price (2021). They concluded that all four variables – Environmental (E), Social (S), Governance (G), as well as ESG (altogether) were consistent with the Popularity Theory, meaning that investors were willing to forego financial return from investing in non-ESG companies that were priced more attractively, and invest in ESG stocks that had higher initial stock price. The researchers provide multiple possible explanations for their conclusion such as potential ESG regulations and tariffs being risks for non-ESG stocks and potentially resulting in losses, investors' values being more aligned with ESG stocks, investors expecting ESG companies benefiting from better access to capital and others. Regardless which explanation is correct or if all are correct, the researchers conclude that there has been a revealed investor preference in favour of ESG companies on the stock market in the context of 5,918 companies in the period 2003-2020.

Another impact of ESG practices on company value and performance is through attracting and retaining top talent (McKinsey & Company, 2020). Gen Z and Millennials prefer companies serving a higher environmental or social purpose beyond mere shareholder value maximisation. It is estimated that by attracting and retaining top talent through the company's ESG commitments, the business saves as much as 2% of its stock price per year that would otherwise be cost of turnover. Nuttall, director of regulatory and government affairs practice at McKinsey provided simple justification for the impact of ESG on company valuation. When acquiring an asset, its quality needs to be assessed and ESG is fundamental component of quality. Investors should assess and weigh in the likelihood of a company with poor ESG practices running into headwinds due to regulatory pressure against a company with strong ESG commitments benefitting from favourable consumer preferences and capacity to attract and retain top talent among other factors.

El Ghouli et al. also provided insights into how companies' ESG-related commitments are priced by the capital markets (2011). In comparing companies exhibiting sustainable business practices against ones in 'sin' industries such as nuclear power and tobacco, the researchers find that the former have cheaper access to equity financing. The study argued that the reduced cost of equity financing is the result of reduced agency and asymmetric information with companies exhibiting ESG practices leading to reduced perceived riskiness of the company. Reduced riskiness is associated with lower required rate of return and lower discount rate which ultimately leads to higher stock price and enhanced company value.

The impact of ESG on company value was researched and presented as early as 2004 in the United Nations Global Compact report, which is often credited with introducing the term ESG (Powell, 2022; United Nations Global Compact, 2004). In a survey conducted by CSR Europe, Deloitte and Euronext

where asset managers, financial analysts, and investor relations executives were asked how responding to social and environmental risks impacts a company's value, the overwhelming majority, 78%, indicated a positive relationship in the long-term while a smaller percentage – 32%, indicated the same relationship for the short term (3-12 month).

Extreme weather events, social unrest, Covid-19, decarbonization and digitalization, current and planned regulations among others are factors driving the shift in investors' focus towards ESG funds (Papadopoulos et al. 2020). As a result, the market for ESG funds has grown exponentially. European ESG funds in 2020 attracted USD 233 billion – double the capital relative to 2019 (Bioy et al., 2020). To meet the demand 505 new ESG funds were launched, and 250 funds were repurposed. With professional assets managers responding to the increased interest in ESG investment, the ESG-mandated assets under professional management are increasing significantly in recent

Furthermore, ESG-mandated assets under management are forecasted to surpass non-ESG mandated assets by size as early as 2024.

ESG impact on company's financial performance

Since Milton Friedman's famous statement that 'there can be companies that do good and companies that do well, but they can never be one and the same', there has been a long and heated debate on the relationship between CSR, firm value and financial performance (Giese et al., 2019). A common criticism of ESG practices is that businesses exist to do business and grow. In this way they end up benefiting the economy and society. Should they decide to start focusing on a wider set of stakeholders, their capacity to do business and competitiveness will be hindered. According to recent research however, this is not the case and CSR or ESG practices actually benefit the financial performance of the company (Margolis et al., 2009; Friede et al., 2015; Giese et al., 2019).

In their study in 2009, Margolis et al. identified 214 academic papers investigating the impact of social responsibility on the company's financial performance. Within the 214 studies, the researchers identified 251 social responsibility and performance effects. They conducted a meta-analysis on the identified effects with the aim to enable corporates to draw implications for their corporate agendas and strategies. The researchers concluded that socially responsible practices do not lead to negative impacts on the financial bottom line. Of the 251 social responsibility and performance effects identified and analyzed, 59% showed no relationship, 2% showed negative relationship and 29% - positive (the remaining were considered not statistically significant).

A later meta-study analysing the relation between ESG and firm's financial performance reached a similar conclusion. Analysing a total of 2,200 academic papers, Friede et al. found a non-negative impact of ESG on corporate financial performance in 90% of all cases.

Giese et al. concluded that adopting ESG into firms' business model is a practical way of enhancing company value and performance through a multichannel process (2019). Incorporating ESG practices and framework results in a decrease of both systematic and idiosyncratic or tail risk as well as cheaper cost of capital. Through these effects, companies are not only not hindered but are enabled to achieve top financial performance.

ESG in Bulgaria

Since 1st January 2007, Bulgaria has been a fully-fledged member of the European Union and as such, all EU regulations, including ESG-related, apply to Bulgarian entities as well. On a more local level, ESG-related topics and their business implications are becoming more broadly discussed on the governmental as well as business levels.

Limiting the geographical focus of the study to SMEs in Bulgaria is due to several considerations:

- Making research manageable – focusing on a single country allows for more depth in the research given time and resource constraints;
- Bulgaria's context and positioning within EU – Bulgaria is an Eastern European country situated on the Balkan peninsula. It shares many economic, demographic, and business characteristics with countries in the region. As shared by interviewees in the primary research, ESG maturity and values in the region are similar. Hence, insights for the impact of ESG practices on Bulgarian SMEs are likely to be useful for SMEs from the region, SMEs outside of EU considering entering the EU market and being interested in the ESG practices and standards employed.

The Director for Corporate and Investment Banking in the largest Bulgarian bank (in terms of assets) reported in an interview for a local news media that 'ESG factors are being fully incorporated in the decision-making process in a number of bank operations' (UniCredit Bulbank, 2022). The news article does not provide any detail as to how ESG considerations are embedded in the bank's operations and what the implications for SMEs are. However, in the interview article the bank's director provided assurance that their strategy is aligned to EU's current and planned regulation in the ESG field as well as suggested best practice. Beyond strategy, operations, and risk management, ESG is considered in the remuneration schemes of the bank's leadership.

The interest in ESG from governmental, business, and financial market entities' sides is evident in the recent initiation of the Green Finance and Energy (GFE) Centre (GFE Centre, 2022). With support from the Ministry of Finance, Ministry of Energy, the Financial Supervision Commission, and participation from academic, business, and financial circles, the Centre's mission is to develop and spread policies and best practices guidance in the local and regional ecosystems on ESG, green energy and finance related topics.

The high priority of environmental and overall social problems on business leaders' agendas coincides with the high public expectations that businesses should fill the void in tackling CSR challenges (KPMG Outlook, as cited in Stefanova & Mihaylov, 2021). According to a study conducted by KPMG in 2020, 65% of the public expected CEOs to have some positive impact on CSR-related issues.

SME Scene in Bulgaria

In line with SME theory, SMEs have an important role in Bulgaria as the provider of employment for 75% of the workforce and the generator of 65% of the total output in the Bulgarian economy (PwC, 2021). Improving SMEs productivity and removing impediments to their growth have been ranked high on public policy agenda. However, there is still an opportunity for SMEs to develop and catch up with EU peers especially in areas such as green economy and innovation. In research by PwC, mandated by the

Bulgarian Ministry of Economy spanning more than 500 SMEs, two out of the six priorities outlined and recommended by the researcher were improving access to finance and developing SME-specific financing instruments.

SMEs in Bulgaria are often beneficiaries of public funding aimed at ensuring their liquidity and employment capacity (Kokalova-Gray, 2022). In one of the most recent rounds of funding aimed at supporting the SMEs, 49mln EUR were allocated to more than 900 SMEs. Interestingly, in the primary research data collection, a recurring theme mentioned by interviewees was the importance of ESG aspects when accessing public funding. Part of the rationale for the preference for ESG-committed SMEs is because significant portion of the funding comes from the European Bank for Reconstruction and Development (EBRD) and the EU has set ambitious ESG-related goals.

In line with the theory on SME finance gap, SMEs in Bulgaria are underfinanced. In the latest comprehensive Enterprise Survey by the World Bank (WB), 180 thousand businesses from across 154 countries were surveyed on different indicators (World Bank Enterprise Survey, 2019). The data collected from the WB is often utilized by investors, policymakers, academics, and businesses.

Pivoting and analysing the raw data available on WB's site yields important insights for the financing of the 772 Bulgarian companies, part of the Enterprise Survey. One such insight is that the ratio of SMEs that consider access to finance as a moderate, major, or very severe obstacle is as high as 88.2% (see Figure 3.).

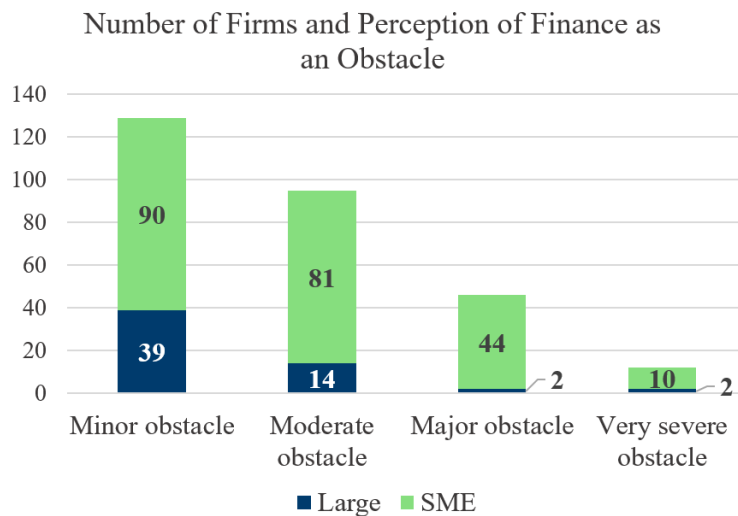


Figure 3. Number of Firms and Perception of Finance as an Obstacle; Source: WB Enterprise Survey (2019)

As evident from the graph, SMEs are disproportionately underfinanced in comparison to Large companies. The ratio of small and medium businesses that find access to finance a major or very severe obstacle out of all businesses (93.1%) is significantly higher than the ratio of SMEs surveyed in the Enterprise Survey (74.8%), which is evidence in line with the theory that SMEs typically have more challenges with financing relative to larger companies.

Delineation of the research model

Delineating the research model for the current study will be helpful in guiding the research design and methodology, data collection, analysis, as well as the interpretation of the results. Based on secondary research and the findings reported, a visual representation for the research model is elaborated in Figure 4. The impacts of ESG on companies access to finance in the context of developed economies and large companies, namely cheaper debt, better debt conditions, higher company valuation, access to dedicated ESG funds are mapped in the model (Jang et al., 2020; Srivastava et al., 2022; Albuquerque et al., 2019; McKinsey & Company, 2020).

A foundational principle in investment theory is that investors seek highest return for the lowest risk. The competitiveness and financial performance of a company are hence key in determining its access to finance. Chabachib et al. conclude that return on equity and other financial ratios have a positive impact on investors demand (2020). Hence, factors that lead the business to become more competitive also have a positive impact on its access to finance. This notion is expressed in the research model visual representation as a logical connection and denoted by an arrow connecting ‘Increased competitiveness’ factors with ‘Better access to finance’ factors.

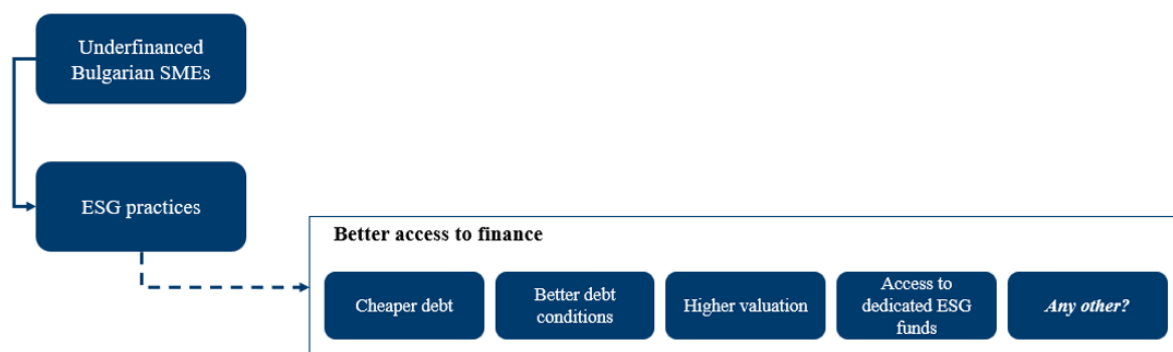


Figure 4. Research Model Visual Representation; Source: Author's own elaboration

The impacts of ESG on a company's access to finance for developed economies and large companies are used to form propositions and build an interview guide (available in Annex), which is to be used in semi-structured interviews.

To answer the Research Question of the current research, the interview guide is also designed in a way to uncover other possible impacts of ESG practices on SMEs' access to finance as expected in an exploratory study.

3. Methodology

Description of the research propositions

Findings from existing literature on the impact of ESG on companies' access to finance are used not only to provide relevance and justification for the research question, but also to inform research propositions. The propositions served as a basis for the interview guide and the primary data collection. The already studied implications of a high ESG score for a business' access to finance in a developed economy are categorized into themes. The questions for the semi-structured interviews are then based on the themes rather than on the specific implications already identified. This is to encourage more open-ended questions and exploratory nature of the primary data collection as well as to reduce socially acceptable responses. Table 2. below provides a summary of the Interview Themes to be investigated:

Theme	Desired Outcome
Qualifying questions	An understanding on the magnitude of experience the interviewee has had with regards to the topic of interest
Financing Decision-Making Process	The main part of the interview: a detailed view on the influence of ESG factors in the decision-making process the interviewee is engaged in as part of their daily job
Impact of ESG on the Business committed to ESG	A view on the interviewee's sentiment on how ESG affects SMEs
Assessing/ Scoring ESG Commitment	An understanding of how the interviewee measures the level of ESG commitment by SMEs
Attitude towards ESG	Potentially an understanding towards where ESG is headed and its future impact on SMEs

Table 1. Interview Themes and Desired Outcomes; Source: Author's own elaboration

Providing insights into the abovementioned themes as well as capturing and analysing any emerging themes, insights, and patterns is deemed sufficient to answer the Research Question.

Research sample and data sources

As theory suggests, there are different ways for SMEs to access finance (Imanbaeva & Dornberger, 2017). Hence, to be able to generate generalizable conclusions for the different modes of financing for SMEs, the following interview types are in scope of the study:

- 1) Bank decision makers;
- 2) Venture capitalists (VCs);
- 3) Angel investors;

- 4) ESG consultants;
- 5) SME owners/ executives.

Capturing the expertise of the different finance providers – banks, VCs, angel investors, the SMEs' owners and executives as well as ESG consultants working with SMEs is deemed necessary in order to provide a holistic and exhaustive view on the impacts of ESG on SMEs access to finance.

The sample design is not based on a representative sample of the population of finance providers from a statistical perspective for two reasons. Firstly, this would be impossible to achieve in the context of qualitative research due to the limited sample size. Secondly, given the research question and exploratory nature of the study, a research sample that is a non-probability (judgmental) one is considered to be more appropriate. In contrast to the representative (or probability) sample, the judgmental one is not formed by randomly selecting participants from the total population (Sekaran & Bougie, 2010). Since the objective is to capture the expertise of professionals with deep insights in the overlap of ESG practices and SME financing, the sample is chosen purposefully. The sample selection criteria and reasoning were as follows:

Nº	Criterion	Reasoning
1	At least 3 years of experience in the context of Bulgarian SMEs.	To ensure sufficient amount of experience and insights in the context of SMEs in Bulgaria.
2	Being involved in the decision making for granting finance to, selecting, or assessing SMEs.	To ensure relevant exposure.
3	Have at least a general understanding of ESG and sustainability.	To ensure interviewees can delineate the impact of ESG on financing and distinguish it from the impact of accompanying factors.
4	(in the case of SME owners/ executives) Have previously sought any type of external financing and not relying only on their own capital and retained earnings.	To ensure that SME owners or executives can provide an overview of personal experience in applying for financing.

Table 3. Sample Design Criteria and Reasoning for Each Criterion; Source: Author's own elaboration

As the research question is focused on Bulgarian SMEs, data collection was carried out either in person or online with interviewees located and active in Bulgaria. As further elaborated in Section Empirical setting, choosing Bulgaria as a research location can yield insightful and actionable insights for SMEs in other markets as well. Bulgaria is an Eastern European country situated on the Balkan peninsula and

as such it shares many common economic, demographic, and other characteristics with its neighbors as well as countries with similar economic development. As shared by interviewees in the primary research, ESG maturity and values in the region are similar. Thus, implications of ESG practices on Bulgarian SMEs access to finance could carry actionable insights for SMEs in the region. Furthermore, since Bulgaria has been an EU member since 2007 and all EU regulations apply, the research could benefit SMEs from candidate countries for entering the EU market as an EU member or a business partner.

Data collection

Data collection for this research was carried out by conducting semi-structured interviews with five types of interviewees: bank decision makers, VCs, angel investors, SME owners and executives, and ESG consultants. The identification of potential interviewees was based on a judgemental sample with criteria as indicated in Table 3.

The methodology for the data collection was divided in three phases – planning and preparation, executing, and close-out phases:

1) Planning and preparation stage: in this stage an interview guide was formulated. The guide was created after doing secondary research to provide context and justification for the research question. Existing literature on the impact of ESG on financing of large companies in developed economies was studied and the conclusions were used in the development of research propositions and research themes to be investigated in the. Furthermore, potential interviewees were identified via LinkedIn search and connection requests with brief description of the purpose of the connection were sent out. Prior to agreement to be interviewed, ethical considerations for the interview were shared which included interviewee anonymity, that the interview could be ended any time and that audio recording will be used for transcription purposes only. Written Consent and Confidentiality form was shared with professionals who agreed to participate, and all forms were signed by interviewees and sent back to the researcher prior to the commencement of the interview. Before moving to the next stage of the research, 3 pilot interviews were conducted which aimed to assess the suitability of the interview guide for answering the research question. After an assessment of the results collated as well as the interview process carried out, the interview guide was deemed fit for purpose and was not changed in any material way.

1) **Executing stage:** in this stage the remaining 24 interviews were carried out for a total of 27 interviews. The majority of interviews (22) were conducted online; 3 were conducted in written form, and 2 were done in person. At the beginning of each interview, following best practice, expectations for the interviews were set, introductions were made, confidentiality considerations were reiterated, and actions were taken to ensure the interviewee is at ease and does not have any concerns. All interviews were recorded with a phone device and the purpose of recording was made clear to all interviewees. Recording the audio of the interviews allowed for undivided attention to the dialogue of the interview, which aided in staying focused and uncovering emerging themes during the interviews. Most interviews were conducted in Bulgarian, and 3 interviews were

conducted in English. After transcribing the interview recording in the language of the interview, free software was used – DeepL – to translate all transcripts in English. After translation by DeepL, the translated transcripts were revisited to ensure quality of translation.

As expected with semi-structured interviews, the interviewees were offering valuable insights that were not previously considered in the interview guide. To increase exhaustiveness of the research, any emerging themes that were deemed valuable, were also included in subsequent interviews.

To be able to reach more professionals that could contribute their expertise and insights, snowballing sampling technique was utilised as well. At the end of the interview, interviewees were asked if they could provide introduction to an acquaintance of theirs that would consider taking part in the research. The snowballing technique proved to be successful as 7 interviews with high-ranking, seasoned professionals were arranged this way.

3) Close-out phase: in the close-out phase, all translated transcripts were consolidated, initial analysis was conducted. Without an exception, all interviewees were eager to participate in the research and remained open and willing to contribute in case there were any subsequent questions or clarification needs. During the interviews, to ensure high ethical standards as well as productive dialogues and high-quality outputs, all best practices for conducting interviews were observed (Schreier, 2012; Saunders et al., 2006; author's own elaboration).

Data analysis

The data collected through the 27 semi-structured interviews is rich in interviewees' sentiments and perspectives on and surrounding the research question. Making sense of the high volume of data collected without following a structured approach is virtually impossible. As already stated, Qualitative Content Analysis (QCA) is found to be the most suitable approach for analysing the data and answering the research question. The QCA method allows for systematic description of the meaning of qualitative material (Schreier, 2012). This is achieved by classifying segments of the data into categories of a coding framework. Coding process. QCA is helpful in offering a concrete lens through which to analyse the data pertaining to the research question. The method does not provide a holistic overview of the data, which would not be needed, but rather aids the researcher in focusing only on that part of the data which helps answer the research question.

The systematic approach of QCA analysis is one of the most distinctive features of QCA (Schreier, 2012). The systematic approach is expressed in three important aspects – all data is examined, actions for ensuring consistency are taken, and the same sequence of steps is always followed. In QCA all data is investigated, and relevant information is reduced and encoded. When reducing the data to codes, the researcher is influenced by their own perspective, biases, or daily events. To ensure consistency and reliability of the research process, QCA suggests coding the same material by two researchers or one researcher re-coding the same material a couple of weeks after the first coding and then reconciling the differences. Lastly, all research activities following the QCA method observe the same sequence of steps (Schreier, 2012):

- 1) Deciding on a research question;
- 2) Selecting the material;
- 3) Building a coding framework;
- 4) Dividing the material into units of coding;
- 5) Testing the coding framework;
- 6) Assessing and enhancing the coding framework if needed;
- 7) Main analysis;
- 8) Providing interpretation for the findings.

One of the strengths of QCA as argued by Schreier is that with QCA, some specific information on the individual level is inevitably lost, but information on the aggregate level is gained, which is particularly useful when analysing large volumes of qualitative data from semi-structured interviews as is the case with this research (2012). QCA, as also other qualitative research methods, is characterized by interpretative direction of symbolic meaning and material. Unlike other qualitative methods however, Several other qualitative data analysis approaches were considered including coding, discourse analysis, semiotics, and choice was made in favor of QCA.

Coding process

In QCA, coding is defined as a conceptual process in which when a code is assigned to a unit of analysis, that unit of analysis is identified as an instance of a given concept, referred to as a category or subcategory (Schreier, 2012). Units of analysis can be a few words from a line, a line, several lines, a paragraph, etc.

The main categories (also called dimensions) are the main aspects the research is focused on. The subcategories within each category are viewed as instances of the respective dimension (Schreier, 2012).

The coding framework was developed using a combined approach between concept-driven and data-driven strategies, which is the most frequently used approach in QCA (Schreier, 2012). The concept-driven part consisted of developing an initial set of categories based on the interview guide, the preliminary, high-level analysis of the interview transcripts, as well as the theoretical frameworks identified and studied prior to conducting the interviews. A common practice in concept-driven coding framework development is to use a coding framework from a previous study identified through secondary research. However, a study using a coding framework to analyse the impact of ESG practices on businesses could not be found regardless of the geographical focus of the search or the size of the businesses studied.

To ensure consistency and reliability of the coding framework, the same interview transcripts were re-coded two weeks after the initial coding by the same coder. No major discrepancies were found, and the coding framework was deemed fit-for-purpose and reliable.

4. Results

Following the secondary research and identification of financing benefits resulting from ESG practices in the context of large companies in developed economies, similar positive implications were expected to be found with regards to financing of SMEs in Bulgaria. Through open-ended, non-directional questions and discussion, the interviewees confirmed the positive impacts of ESG practices on large companies in developed economies, namely:

- Better access to investors' capital and higher valuation,
- Cheaper access to debt and better debt conditions,
- Better financial performance

also apply (to an extent) to SMEs in the context of Bulgaria. Furthermore, interviewees highlighted other ways and channels through which ESG practices directly or indirectly positively impact SMEs' access to finance. Although some interviewees expressed varied levels of confidence that ESG has material positive implication on SME financing in Bulgaria, in general, it can be concluded that such a relation exists as is expressed in subsequent sections.

Results from the coding process

The coding frame generated in the coding process is an important research artifact since it provides a hyper-summarised and abstract view on the research results and for some research studies, the coding frame is the main deliverable of the research as it answers the research question (Schreier, 2012). Codes are used in the identification and categorisation of relevant segments from the interviews that pertain to the research question and objectives. Codes are then used to make the analysis manageable, to relate between segments of the data, and to interpret the results. Although this research goes into further analysis and interpretation of the research results and coding frame, presenting the coding frame itself is important. Table 7 provides a list of the main categories (dimensions), their definitions, as well as the coding frequency (i.e. how many segments were coded into this category).

Nº	Category	Definition	Frequency
1	Interviewee Type	Relates to the 5 categories of Interviewees - 1) Bank decision-makers; 2) VCs; 3) Angel Investors; 4) ESG Consultants; 5) SME owners/ executives	27
2	Financing Benefits	Comments relating to ways in which ESG directly and positively impacts SMEs looking for financing	72
3	Other Benefits	Comments relating to ways in which ESG positively impacts SMEs competitiveness in ways different from access to finance	68
4	Financing Disadvantages	Comments relating to ways in which ESG directly and negatively impacts SMEs looking for financing	1

5	Other Disadvantages	Comments relating to ways in which ESG negatively impacts SMEs competitiveness in ways different from access to finance	8
6	Neutral ESG Observations	Comments that are neither positive, nor negative and relating to historic, present or future developments of ESG in Bulgaria that are not directly related to SMEs access to finance, competitiveness or any other benefits for SMEs	20
7	Positive ESG Observations	Positive comments relating to historic, present or future developments of ESG in Bulgaria that are not directly related to SMEs access to finance, competitiveness or any other benefits for SMEs	41
8	Negative ESG Observations	Negative comments relating to historic, present or future developments of ESG in Bulgaria that are not directly related to SMEs access to finance, competitiveness or any other benefits for SMEs	52
9	Miscellaneous	Residual category to capture any segments containing insightful information not directly linked to the research question	12
		<i>Total coded segments</i>	301

Table 4. List of Main Categories (Dimensions), Their Definitions and Frequency of Occurrence; Source: Author's own elaboration

A total of 301 units of analysis were encoded and categorised into the dimensions presented above. Each category consisted of different codes presented in annex, together with the definition for each code (subcategory), its frequency of occurrence, as well as the category it corresponds to. The research resulted in a coding frame of 9 categories and 62 sub-categories.

Financing benefits

Virtually all interviewees expressed at least one financing benefit for SMEs in Bulgaria stemming from incorporating ESG practices. The ‘financing benefits’ category is a collection of all coded statements relating to ways in which ESG practices directly impact SMEs’ access to finance in a positive way. Before delving deeper in the insights shared by the interviewees, Figure 5. below provides an overview of the ‘financing benefits’ category, the associated subcategories, as well as a selection of quotes from the interviewees:

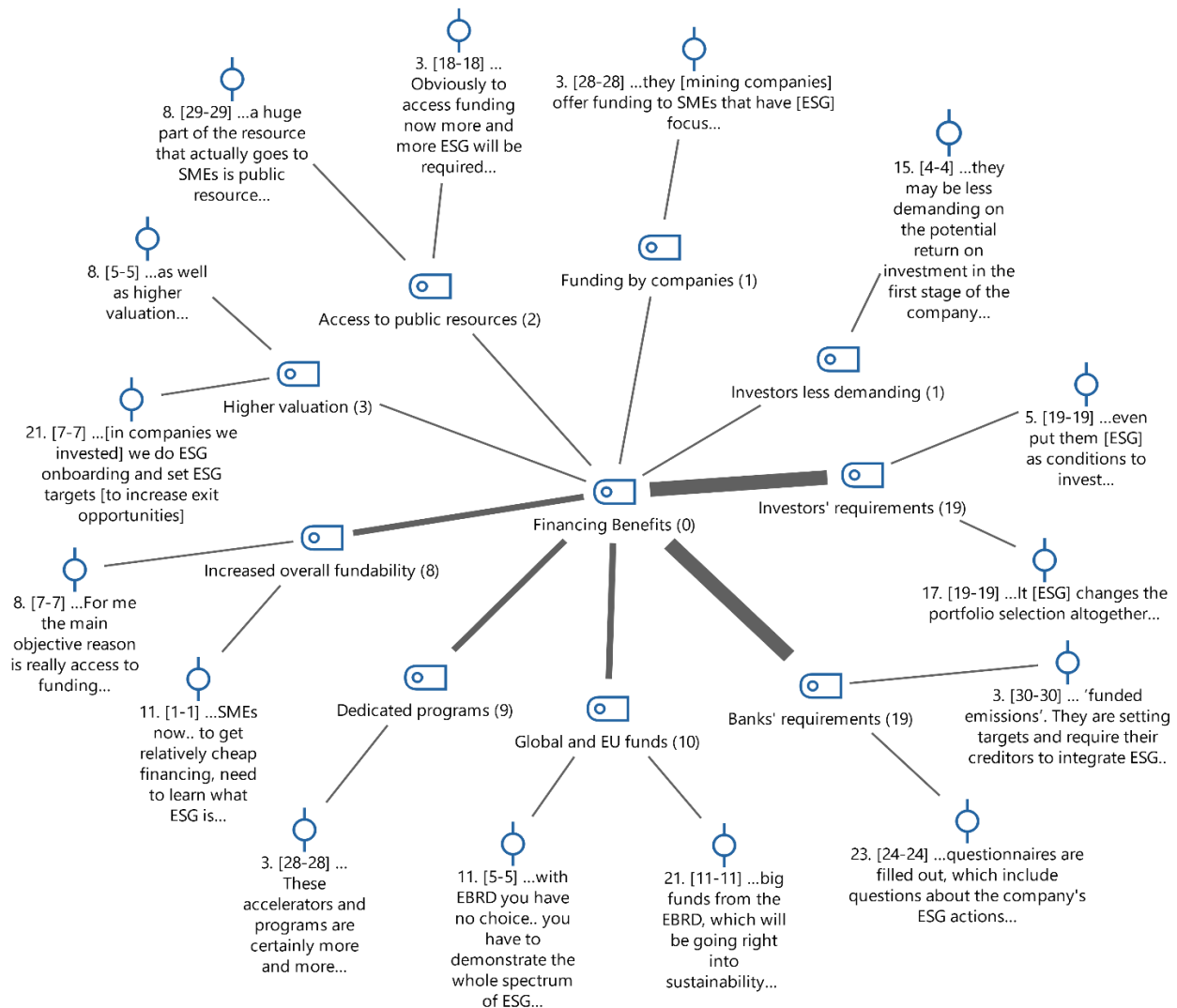


Figure 5. Network View of the Financing Benefits Category, Related Subcategories and Selection of Segments; Source: Author's own elaboration

In the interviews conducted, the most frequently mentioned positive impacts of ESG on SMEs access to finance were responding to Investors' and Banks' requirements. Both "Investors' requirements" and "Banks' requirements" were mentioned 19 times each.

In line with the theoretical framework and secondary research, the impacts of ESG practices for large companies in developed nations also hold for SMEs in Bulgaria, namely the impact on bank financing, investments, and valuation. Other positive impacts that emerged through the interviews are:

- Global and EU funds dedicated for ESG businesses (mentioned 10 times) – significant resource coming from the EBRD and targeting SMEs has high ESG requirements, which is expected given the ambitious ESG targets the EU has set;
- Local dedicated programs, grants, accelerators for ESG or green companies (mentioned 9 times) – on a local level NGOs and business associations offer specialised programs, grants and other benefits for companies exhibiting ESG practices;

- Local public funding (mentioned 2 times) – governmental programs are dedicated to developing green SMEs in particular;
- Funding offered by companies (mentioned once) – example was provided where a ‘brown’ business – a mining company – was offering funding to green businesses in its value chain which have a focus on developing green solutions;
- Investors less demanding (mentioned once) – when allocating their capital, investors are aware that ESG businesses typically realise financial return later than non-ESG businesses and are less demanding due to having a long-term view.

Better access to investors’ capital and higher valuation

Good amount of finance providers considers ESG practices and standards of a company as a ‘licence to operate’. Essentially, if a business does not cover the ESG standards of the finance provider, it is not considered further in the due diligence process regardless of how high the potential financial return is.

Investors’ focus on ESG is not limited only to the portfolio selection stage. Once financially committed to a business, even without being required by regulations, investors in early-stage SMEs work with the business to increase its ESG engagement and set the right infrastructure in place. This is in expectation of the demand from later-stage investors for high ESG standards.

VCs put extra effort in increasing the ESG engagement for some businesses in their portfolio. As already discussed, different demographics have different values and sentiment towards ESG-conscious businesses. Hence, if the target market of an SME is comprised predominantly from Gen Z or Millennials, VCs take actions in embedding ESG practices and targets in the SME they are invested in and also making sure the SME is communicating its ESG values outward as well.

All VCs interviewed confirmed that the ESG commitments of the SMEs matter in their portfolio selection. Furthermore, the fact that VCs work with businesses from their portfolio to increase ESG engagement signals that improving ESG practices contributes to a better exit opportunity for the VC fund. However, high ESG standards of the business do not make up for lower financial performance or financial potential of the businesses VCs look to invest in.

Although financial expectation from investors for their ESG investment is high, as shared by one VC, investors are accommodating the fact that return on ESG investment often comes at a later stage compared to non-ESG investments. This puts less pressure on ESG businesses to realise highest financial return possible in the short term and focus on long-term success and resilience instead.

One of the interviewees who is an ESG Director at a major VC fund spoke briefly of ESG onboarding the do for companies they invest in. Upon transcribing and analysing the interviews, the researcher deemed the concept of “ESG onboarding” insightful and worthy of additional attention and research. The interviewee was contacted again with the request to share more information on the structure and purpose of the ESG onboarding process which are reported below.

Structure: in the ESG onboarding, all key personnel from the SME participate in extensive training and discussions on the following topics:

- Benefits of ESG practices;
- Risks of underestimating the importance of the ESG topic;
- Expected regulatory changes regarding ESG;
- Analysis on the ESG efforts of the company's competitors, good and bad practices;
- Research on the portfolio company's key clients and the ESG regulations that could have an impact on them;
- Greenhouse Gas (GHG) emissions Scope 1, 2, 3;
- Guidelines on preventing greenwashing;
- KPIs on tracking ESG efforts.

Purpose: the ESG onboarding aims to help the portfolio companies make the most out of the ESG opportunities as well as minimise the associated risks (e.g. supply chain disruptions, reputational, regulatory, etc.) which ultimately allows for higher portfolio company valuation and better exit opportunities.

After the onboarding, a detailed action plan is created with well-defined milestones, KPIs, etc. Furthermore, in a yet unpublished interview, senior directors of the fund report that:

"We maintain that responsible investment practices are the only way for attaining long-term capital growth and supporting the development of exceptional companies. Effective corporate governance is a fundamental element in effectively addressing the challenges associated with the rapid expansion of the firms we support. This approach guarantees sound risk management, transparency, and a platform for constructive discussions where the viewpoints of all interested parties can be considered."

They also argue that monitoring social and environmental impact is not only the right thing to do, but also enables a more comprehensive risk management framework as well as inspiration for all stakeholders involved in the VC fund and portfolio companies alike. The VC company openly communicates that ESG principles are incorporated at every level of their decision-making in the investment process and they encourage their portfolio companies to also serve as an example that considering the community and the environment is actually a prerequisite for financial success and not an afterthought.

Cheaper access to debt and better debt conditions

From the perspective of the banks, key consideration for the SMEs applying for finance is that although SMEs will be subject to the CSRD no earlier than 2026, banks, as part of the financial sector, are already subject to sustainability-related disclosures and the SFDR in particular. Hence, banks report on their 'financed emissions' and SMEs applying for loans need to fill in questionnaires regarding their emissions and other ESG-related information. As expressed by a Director and Board Member at one of the largest Bulgarian banks, most banks have carbon-neutrality targets for their portfolios.

Although ESG information is widely being required when applying for a loan, Bulgarian SMEs find it challenging to report on their own ESG-practices and footprint.

In line with the findings by Jang et al. concluding that the ESG-score of a company is correlated with its credit default risk, according to one banking professional, a business with high ESG commitments is often lower in risk (2020). The rationale provided is because in the context of SMEs, ESG is viewed as ‘a kind of luxury’ which can be afforded only by those businesses that are performing well in other aspects too. Furthermore, ESG practices could also signal managerial capacity. ESG-related issues are considered by banks at the project-level as well and interest rates offered are affected:

“They will have for example construction companies that start to build a building, they will have a different interest rate according to the ESG valuation or score that the company has. In some cases the individual project for example, if an energy efficient building is using project finance, it will have a lower interest rate but it is different with different financiers. But certainly, everybody is now taking into account the ESG ratings.”

Virtually all bank-decision makers, investors and SME owners and executives confirmed the positive impact of ESG on SMEs’ access to finance.

Despite the financing benefits of ESG as expressed by the interviewees, the level of understanding of ESG across Bulgarian SME is not as mature as in their Western European counterparts. However, to be able to negotiate better financing terms, it is suggested that SMEs consider ESG factors.

Financial institutions have an important role in the economy in translating or embedding governmental regulation into company’s operations or markets through the allocation of capital. This point was raised with relation to banks and funds reacting to EU’s ambitious targets and regulation and then translating the same into requirements for businesses looking for finance.

Thus, the implication for SMEs is that banks’ lending criteria is expected to be influenced by current and planned ESG directives by the EU and the EU’s ambitions ESG-related targets.

Other financing benefits

The fourth most mentioned subcategory relating to financing benefits was the presence of dedicated programs, grants, accelerators, etc. exclusively aimed at developing green businesses. Some of the programs mentioned by the interviewees were a Norwegian grant, European Innovation Council (EIC) accelerator grant, America for Bulgaria Foundation, Black Sea Climate Accelerator, Innovation Starter (backed by the UN Global Compact), Climate Launch Pad (backed by the European Institute of Innovation and Technology), grants by Postbank and others. As shared by one of the SME owners who received financing through one of the programs, such financing programs are increasing in number and size and becoming a viable source of capital for ESG-related businesses.

As another emerging concept and potential financing channel, the interviewees pointed to large, often ‘brown’ companies, which offer funding to SMEs in their value chain to reduce their footprint. By doing so, the polluting sponsoring company helps to reduce the negative impact of its value chain. The example provided was with mining companies in Bulgaria offering funding to SMEs.

Supply chain requirements

The second most frequently cited factor positively impacting SMEs with high-ESG standards is related to SMEs being part of international supply chains. As indicated by interviewees, ESG-related values, standards and understanding in Bulgaria are lagging the Western European ones. Hence, Bulgarian SMEs working towards gaining access to Western European markets directly or by supplying Western European companies, need to adapt to higher ESG-standards.

Large companies in their CSRD reporting are required to provide information with regards to the level of sustainability in their supply chains. Experienced ESG consultant provided two examples of how Bulgarian SMEs working with companies abroad could be impacted negatively if not maintaining high ESG standards:

“And this thing through the Tier 2 suppliers of the big players in Germany gets to Bulgaria and when you work for BMW and 80% of your production goes there and BMW knocks on your door and says, 'you do what you do, but in 2 years, your product has to become carbon neutral because otherwise I won't buy it' what do you do. This is the way.”

[Interview 11, Paragraph 29]

“...big companies for example like Coca-Cola they put down the supply chain, they order, 'people, do what you do, but from tomorrow I want what you sell to be carbon neutral’”

[Interview 11, Paragraph 27]

Foreign buyers of products and services of Bulgarian SMEs are not exerting pressure on SMEs to be more ESG-engaged only as a matter of values, but also because of regulation as well. According to the CSRD, large companies need to report on Scope 3 emissions (European Commission n.d.-c; Greggworth, 2023). Scope 3 emissions are defined as emissions produced not by assets the company is responsible for itself, but from assets up or down its value chain. Hence, large companies incentivise via offering funding (as expressed in Section 5.2) to SMEs along their value chain to reduce emissions or drive SMEs to be more sustainable in other ways.

5. Discussion

The research question of the study was to investigate the impact of ESG practices on Bulgarian SMEs' access to finance. To support the analysis, inform propositions and create an interview guide, existing literature on the impact of ESG on companies' access to finance was researched. To the best of the researcher's knowledge, existing literature was limited to the impact of ESG on large companies in the context of developed economies. Regardless, the impact of ESG on companies as expressed in existing literature was used as a starting point in semi-structured interviews with 27 experts in the field of banking, venture capital, angel investment, SME ownership and management, and ESG consulting. Following a qualitative content analysis of the interviews, it was found that the interviewees generally confirmed that the positive impact of ESG as expressed in literature, also held true for Bulgarian SMEs, namely:

- Cheaper access to debt – aligning with findings from Jang et al. (2020), McKinsey & Company (2020), El Ghouli et al. (2011);
- Better debt conditions – aligning with conclusion from Srivastava et al. (2022);
- Higher valuation – Broadstock et al., (2020), Manojlovic & Tjessem (2021);
- Better financial performance – in agreement with Margolis et al. (2009), Friede et al. (2015).

The interviewees also provided evidence in support of Jang et al.'s notion that the ESG commitment of a company is inversely correlated with their risk of default (2020). Some of the interviewees confirmed that high ESG score signals strong managerial capacity and rigor as well as emphasis on stakeholder relations and transparency, which ultimately result in lower risk of default. The lower risk of default is also associated with cheaper access to debt as well as better debt conditions.

The Venture Capitalists interviewed shared that they put great emphasis not only on investing in SMEs that exhibit strong sustainability practices but also on developing and growing the ESG commitments of their portfolio companies. VCs have detailed ESG onboarding journeys and trainings for investee companies aimed at embedding ESG considerations in their strategy and business model. Even greater emphasis on developing ESG practices is exercised when the target demographic of the investee company is comprised predominantly of Millennials or Gen Z due to their more revealed preference for ESG commitments and higher purpose of companies. VCs reported that their emphasis on developing ESG practices across their portfolio companies is not only the result of their own values and fund commitments, but also because high ESG score of a portfolio company allows for a better and more profitable exit due to higher valuation by subsequent investors or buyers. This notion is in alignment with the quantitative studies performed by Broadstock et al. (2020) and Manojlovic & Tjessem (2021).

Although 27 interviews are not enough to allow, the interviewees provided arguments in favour of ESG commitments resulting in better financial performance especially in the longer term. This finding is in agreement with the meta studies by Margolis et al. (2009), Friede et al. (2015) which conclude that higher ESG score leads to better financial performance of the company. One of the examples provided by the interviewees was that of a zero-waste restaurant employing underprivileged communities which remained profitable even during the Covid-19 lockdowns (Interview 24).

Furthermore, interviews highlighted other ways in which ESG practices benefit Bulgarian SMEs access to finance such as:

- Global and EU funds dedicated for ESG businesses;
- Local dedicated programs, grants, accelerators for ESG or green companies;
- Local public funding;
- Funding offered by companies;
- Investors less demanding in the short term.

Furthermore, the interviewees shared insights that ESG practices benefit the competitiveness and financial performance of SMEs, which are factors that finance providers take into consideration. To name some of the factors mentioned by the interviewees, Bulgarian SMEs engaged in ESG have higher top line growth potential due to access to new markets and being preferred by a growing sustainability- and ESG-conscious customer base, better access to top talent, reduced risk from regulatory compliance as well as overall firm risk and increased long-term resilience, better stakeholder relations, among others.

The timing of this research adds significant value to the research contribution. ESG practices in Bulgaria are far from being adopted in mass and instead exist in siloes. There are evident market leaders in the adoption of ESG that as expressed by interviewees are capitalising on the increasing awareness and benefits of ESG practices. People's awareness and ESG demands from companies, as well as regulatory pressure are only expected to increase in Bulgaria. As confirmed by virtually all interviewees, ESG values in Bulgaria are lagging Western European ones, but are definitely catching up. This resonates with the fact that currently, the market leaders of ESG adoption in Bulgaria are predominantly foreign-owned companies, or companies managed by people who received their higher education in Western Europe. The notion that ESG values are catching up in Bulgaria is also demonstrated by how often the term 'ESG' was used in searches on Google as shown in Figure 6. below:

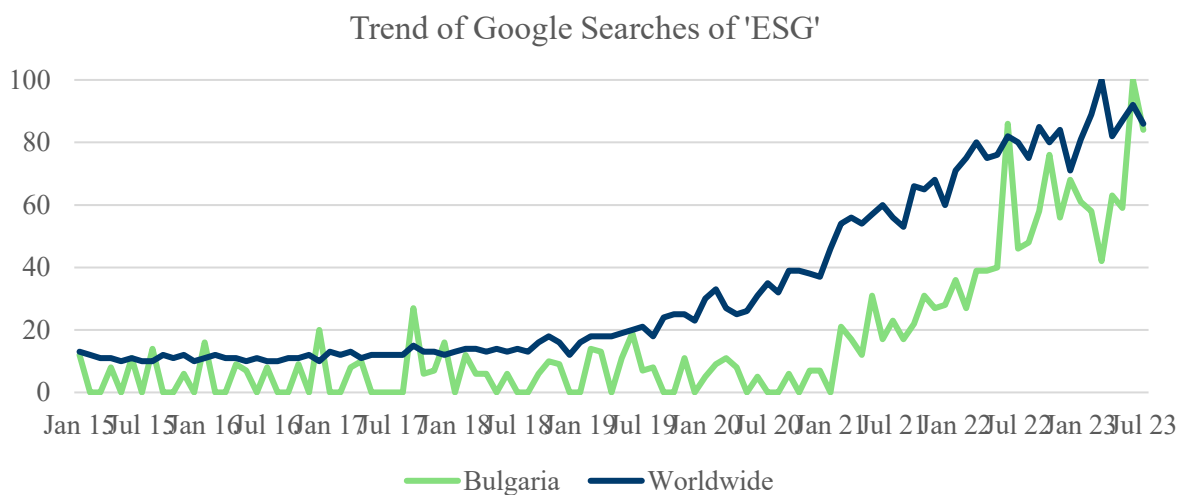


Figure 6. Trend of Google Searches of 'ESG'; Source: Google Trends

Figure 6. presents the relative frequency of searching for the term 'ESG' from 2015 until mid-July 2023.

A value of 20 for a particular month signals that the 'ESG' searches for that month were equal to 20% of the searches during the month with most 'ESG' searches. Two conclusions can be drawn from the figure – that the popularity of 'ESG' searches both in Bulgaria and worldwide is growing and that the trend of ESG searches in Bulgaria is lagging that of worldwide searches. This finding is in agreement with the interviewees expressing that ESG standards are catching up with Western European ones.

Given the relatively lower maturity of ESG practices and their later introduction in Bulgarian businesses, it was not unexpected when interviewees shared the siloed nature of ESG adoption in Bulgaria.

However, there is little debate that ESG practices will increase in importance for businesses. Not only are business partners and customers becoming increasingly ESG-aware and demanding, but also ESG regulations are being introduced that are more encompassing and ambitious. To enable the achievement of the sustainability targets and net zero journey, the EU wishes to bring sustainability reporting on equal footing with financial reporting over time (Mazars, 2023). These expectations for the development of ESG in Bulgaria coupled with the relatively low awareness and ESG understanding by businesses are likely to transform ESG from risk to the business into an issue and impediment for their access to finance as well as overall competitiveness.

ESG practices are currently more of a differentiator in the Bulgarian SME context, i.e. SMEs who exhibit ESG commitments are likely to have preferential treatment by finance providers and customers. However, as expressed by the interviewees, there are already signs of ESG practices becoming less of a differentiator and more of a ‘licence to operate’ for businesses – if certain ESG practices are not in place, the business is ‘going to be rejected by the market’. The factors causing the shift from ESG being a differentiator into a licence to operate that all SMEs need to adhere to can be summarised as follows:

- Access to finance perspective: capital providers are subject to ESG requirements and hence have ESG requirements on their own for the companies they provide financing to;
- Target customers and revenue perspective: more and more customers have revealed preferences in favour of sustainability-conscious products and choose them more often;
- Supply chain and B2B perspective: larger companies are already subject to ESG regulation, track their environmental impact, report on ESG metrics and hence, require businesses in their supply/ value chain to consider their own impact as well. SMEs who do not have ESG commitments will find themselves with fewer chances to participate in international supply chains and thus forego opportunities for expansion and revenue growth;
- Risk management perspective: lack of ESG strategy renders the business more susceptible to adverse impacts following emerging ESG regulations, customer preferences, etc.

Following interviewing best practices, the interview questions were non-directional, objective, open-ended and aimed at capturing the interviewee’s expertise, experience, and outlook. Although the research question has a precise focus on the ESG impact on SME access to finance, interviewees shared other relevant insights albeit not directly tied to access to finance. The research captured not only the interviewees’ perspective on the ESG effects on access to finance, but also reported other relevant insights covering the spectrum from positive, neutral, to negative ESG observations and their implications for Bulgarian SMEs. The wider context of ESG impact is deemed insightful for SMEs as it sheds light on the interviewees’ perspectives on factors that impact SMEs’ financing albeit indirectly. For example, factors such as ESG adoption boom, convergence of ESG standards, shortage of credit, talent war, etc. have implications for the impact of ESG on SMEs that are important to be considered as elaborated in Results section.

recommendations for SMEs on how to navigate successfully in the context of ESG practices and access to finance are given at the end of the paper.

6. Conclusion

Theoretical contribution

The research findings of this exploratory study are not surprising or markedly novel in the sense of not previously existing in at least one of the growing global body of studies, articles, expert interviews, news articles and others dedicated to the impact of ESG on business. Rather, the theoretical contribution of this research is in exploring and confirming the positive impact of ESG practices on a specific type of businesses and specific context – SMEs in Bulgaria. To the best of the author's knowledge as well as confirmed by the interviewees, there was no other research done with the same scope and focus.

In addition to having a novel focus and scope, the timing of the current research is essential given the empirical setting – growing importance of ESG and Bulgarian SMEs' relative lack of preparation to adopt ESG practices and standards. By signaling the gap between developments in the field and businesses' level of ESG adoption, the current research contributes to SMEs by outlining the benefits of ESG with regards to access to finance and beyond and reduces risks for SMEs by providing overview of planned EU ESG directives as well experts' observations and forecasts. Although EU ESG regulations targeting SMEs directly are planned for no earlier than 2026, the research shows and discusses implications of existing EU ESG regulations and their impact on SMEs through market mechanisms, finance providers' preferences, expectations as well as customers' sentiments.

All in all, the findings of the research are deemed useful for Bulgarian SMEs and especially the ones that are not yet as familiar with ESG principles as much as some of the ESG market leaders in Bulgaria are. For them the research could serve as a good starting point providing context and insights into the development of ESG, some of the most important ESG directives, their implications, as well as the experts' view on ESG and its impact on SME financing. Given the increasing importance of ESG standards and the relatively low state of ESG maturity within Bulgarian SMEs, the research could also act as a timely call to action to consider the benefits of engaging in ESG as well as the potential risks if the low level of ESG maturity is allowed to persist.

Limitations of the study

Given the qualitative and exploratory nature of the research, it provides an overview of the benefits of ESG on SMEs' access to finance but does not offer in-depth analysis on how each financing option is affected by whether the SME has incorporated ESG practices or not. The objective of the research was to explore the impact of ESG on as many ways for accessing finance as possible and investigating each one in detail would not have been feasible.

The topic of the research is broad as it encompasses SMEs, which can vary considerably in many aspects, ESG, which is broad in itself, complex, and dynamic, as well as access to finance, which encompasses debt financing, equity financing, and innovative way of financing among others. This was taken into account by the researcher when creating the sample design. However, a sample size of 27 might not be representative enough to uncover all possible relations between the components mentioned – SMEs, ESG, and access to finance. Hence, the results of the research are not envisioned to be generalizable or exhaustive, but rather to reveal and understand as much as possible the impact of ESG practices on Bulgarian SMEs access to finance.

Furthermore, it must be acknowledged that the interviewees who agreed to the interview might be bigger proponents of ESG relative to the prospective interviewees who denied participation in the research. If this speculation is indeed the case, some bias in favor of the positive impact of ESG on SMEs access to finance could have been introduced into the research. However, interviewees provided good argumentation and real-world examples from their respective professional fields. Furthermore, honest responses were encouraged, and verbatim quotes are added to the results section for the reader's benefit and own interpretation and analysis.

Directions for further research

In 2018 the Bulgarian Stock Exchange (BSE) created a special market segment called SME Growth Market BEAM (Ivanova, 2022; Bulgarian Stock Exchange, n.d.). The purpose of the market segment is to enable Bulgarian SMEs to raise funds on easier terms and with fewer requirements relative to those on the Stock Exchange. The BEAM market enables SMEs to raise up to EUR 8 million without having to fulfill all Financial Supervision Committee requirements for an initial public offering. Investigating whether there is a correlation between the perceived ESG practices of an SME listed on the BEAM and its returns (similarly to the study by Manojlovic and Tjessem (2021)) could uncover insights regarding the revealed ESG preferences of investors in Bulgarian SMEs.

While the research found evidence in support of the positive impact of ESG practices on Bulgarian SMEs access to finance, it would be interesting to examine the long-term impact of ESG practices on SMEs' profitability, growth and resilience over a longer time horizon. Case study research comparing companies with similar business models and origins but differing in the adoption of ESG practices over a longer period of time could yield insightful results.

The major role of foreign grants and investments in financing Bulgarian SMEs was mentioned several times in the interviews. Research focused on foreign investors' criteria for investment in Bulgaria and similar markets and the importance of the company's ESG commitment for the investor could shed important insights for Bulgarian SMEs looking to access foreign capital.

The impact of ESG practices on supply chain management for Bulgarian SMEs was a topic mentioned by several of the interviewees. At the moment of writing this research, there were no studies identified that deal with the topic in detail and that provide insights on the challenges and potential benefits when it comes to ESG and supply management in Bulgarian SMEs. Research focused on the impact of ESG on

the internationalisation of Bulgarian SMEs to Western European and other markets with high ESG maturity could also yield insightful findings for Bulgarian SMEs.

Recommendations

As already elaborated, importance of ESG consideration is only going to increase. However, as expressed by interviewees, there is a defined lack of preparation, awareness, and understanding of ESG-related regulations, standards as well as benefits on behalf of Bulgarian SMEs. Given the widening gap between the growing importance of ESG in influencing access to finance and some SMEs understanding of ESG, this research can be viewed as a call to action for Bulgarian SMEs to consider incorporating ESG practices to the best of their abilities, determined by their own context, and as soon as possible. Further to the overview of ESG regulations, summary and analysis of the research results, this research provides the following recommendations for SMEs to consider:

- Explore most relevant for the business ESG standards and considerations as communicated by the EU or prospective financial providers;
- Invest in ESG capacity building, strengthen managerial teams or advisory boards with ESG advocates, enthusiasts, experts and add ESG-related items to the strategic and operational agendas;
- Communicate clearly and concisely ESG targets and policies to wider stakeholders while maintaining highest degree of integrity and transparency;
- Evaluate different ESG certifications and/or take part in business associations or NGOs with ESG-related purpose in order to gain recognition and attract prospective investors;
- Consider incorporating ESG practices not only to respond to current and planned regulatory directives, but for the business benefits of ESG.

ESG is a complex and dynamic topic and SMEs rarely can afford the time to navigate through all the material available online. However, to respond to business' needs, all current and planned EU directives are accompanied by user-friendly guidelines and FAQs published on the official European Commission website that are a good place for SMEs to start.

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Appendix

Annex with Interview questions, Summary list of interviews and Interview Transcripts:

Available if it is required

Annex: List of Subcategories, Their Definitions and Frequency of Occurrence; Source: Author's own elaboration

Nº	Category	Definition	#
1	Interviewee Type		
1.1	SME Owner/ Executive	Code used when interviewee is an SME Owner/ Executive	10
1.2	ESG Consultant	Code used when interviewee is an ESG Consultant	5
1.3	Angel Investor	Code used when the interviewee is an Angel Investor	3
1.4	VC	Code used when the interviewee is a VC	5
1.5	Bank Decision-Maker	Code used when the interviewee is a Bank Decision-Maker	4
2	Financing Benefits		
2.1	Investors less demanding	Subcategory relating to investors being less demanding in the first stages of their investment in an ESG company as they are aware that the investment horizon is more long-term	1

Nº	Category	Definition	#
2.2	Access to public resources	Subcategory relating to SMEs being more competitive in accessing public resources due to engaging in ESG practices	2
2.3	Higher valuation	Subcategory relating to an SME having higher company valuation due to engaging in ESG	3
2.4	Increased overall fundability	Subcategory relating to SMEs having an increased overall fundability without specifying a concrete channel in which funds are to be received	8
2.5	Dedicated programs	Subcategory relating to dedicated programs, accelerators, etc. that are available to ESG companies only	9
2.6	Company funding	Subcategory relating to companies offering funding to SMEs in their value chain who exhibit sustainable practices	1
2.7	Global funds	Subcategory relating funds offered by EU or other global bodies	10
2.8	Banks' requirements	Subcategory relating to banks having specific ESG requirements for SMEs or specific banking instruments available only to ESG businesses	19
2.9	Investors' requirements	Subcategory relating to investors requirements for SMEs to engage in ESG in order to access funding	19
3	Other Benefits		
3.1	Economic sense	Subcategory relating to ESG as making economic sense	4
3.2	License to operate	Subcategory relating to ESG becoming mandatory in order to even compete for funds or customers or markets	6
3.3	ESG-sensitive demographics	Subcategory relating to changing demographics to more ESG-sensitive one which would demand that SMEs cater to a wider set of stakeholders	8
3.4	Talent war	Subcategory relating to SMEs being able to attract and retain more top talent because they have a higher purpose	6
3.5	Long-term resilience	Subcategory relating to SMEs turning out to be more resilient in the long term and reducing risk due to implementing ESG practices	10
3.6	Tax exemptions	Subcategory relating to ESG companies having to pay less taxes due to their sustainable practices	1
3.7	Supply chain requirements	Subcategory relating to SMEs being required from their supply chain buyers to implement ESG practices, reduce footprint, etc. in case they would like to remain a part of the supply chain	12

Nº	Category	Definition	#
3.8	Regulatory pressure	Subcategory relating to SMEs having to comply with regulatory pressure for ESG practices	14
3.9	Values	Subcategory relating to SMEs engaging in ESG due to the founders or executives' values favoring sustainable development	7
4	Financing Disadvantages		
4.1	Financial return comes later	Subcategory relating to financial return of ESG businesses coming later than the return of non-ESG businesses	1
5	Other Disadvantages		
5.1	Financial viability	Subcategory relating to ESG not making financial sense for SMEs	8
6	Neutral ESG Observations		
6.1	Regulation needed	Subcategory relating to more regulation needed for ESG to have an impact	1
6.2	Large companies interested only	Subcategory relating to ESG interest coming mainly from bigger companies only	1
6.3	SMEs not targeted by regulation	Subcategory relating to SMEs not yet being target by regulations	1
6.4	Different investors criteria	Subcategory relating to investors having different criteria and sentiment with regards to importance of ESG in their investment decisions	1
6.5	Financial security first	Subcategory relating to SMEs first needing to establish financial security before engaging in ESG	6
6.6	Foreign-owned branches	Subcategory relating to ESG practices in Bulgaria being adopted first by multinational companies which have offices in Bulgaria	6
6.7	ESG popular only recently	Subcategory relating to ESG becoming popular only recently	4
7	Positive ESG Observations		
7.1	Sign of luxury and mgr. capacity	Subcategory relating to only business that are doing well financially and have high managerial capacity are the ones engaged in ESG	3
7.2	Changing values	Subcategory relating to changing values in favor of ESG	3

Nº	Category	Definition	#
7.3	Wider scope of regulations	Subcategory relating to wider scope of businesses, including SMEs, being regulated under ESG frameworks and directives	5
7.3	Convergence of standards	Subcategory relating to different ESG standards and scores going to convergence	4
7.5	Shortage of credit	Subcategory relating to shortage of credit, increased competition between SMEs for a limited pool of resources and thus ESG practices playing a bigger role	2
7.6	ESG groundwork in banks	Subcategory relating to banks laying the groundwork and infrastructure for ESG instruments and services	4
7.7	Academic ESG programs	Subcategory relating to more ESG programs being introduced in academia	2
7.8	Reduced greenwashing	Subcategory relating to reduced greenwashing due to implementation of new regulations and definitions and especially the EU Taxonomy	1
7.9	Sustainability departments	Subcategory relating to sustainability departments being introduced in companies	2
7.10	ESG adoption boom	Subcategory relating to a rapid increase in adoption of ESG practices, demand for ESG services, wider set of businesses adopting ESG, etc.	15
8	Negative ESG Observations		
8.1	Limited green funds in BG	This subcategory refers to segments relating to ESG funds being more limited in Bulgaria in comparison with abroad	1
8.2	ESG values lagging in BG	This subcategory refers to segments relating to ESG values in Bulgaria lagging from Western Europe for example	4
8.3	ESG politicized	This subcategory refers to segments relating to ESG becoming more of a political issue than it is meant to be	1
8.4	Lack of understanding	This subcategory refers to segments relating to a lack of understanding of ESG benefits and topic in general	2
8.5	Chaotic topic	This subcategory refers to segments relating to the ESG topic being complex, chaotic and difficult to get on top of	4
8.6	No differentiated fin. instruments	This subcategory refers to segments relating to a lack of differentiated financing instruments	3

Nº	Category	Definition	#
8.7	Lack of mgr. education	This subcategory refers to segments relating to a lack of managerial education which hinders the understanding and adoption of ESG practices and framework	2
8.8	Greenwashing	This subcategory refers to segments relating to the problem of greenwashing and ESG efforts being associated as greenwashing	7
8.9	Reduction to a single component	This subcategory refers to segments relating to ESG being reduced to a single component and not adopted and understood holistically	6
8.10	Neglected by businesses	This subcategory refers to segments relating to businesses neglecting ESG as a whole	2
8.11	More difficult for traditional bus.	This subcategory refers to segments relating to traditional and established businesses having more difficulty in adopting ESG than young businesses	3
8.12	Businesses unprepared	This subcategory refers to segments relating to businesses lacking ESG understanding needed for the adoption of ESG practices	17
9	Miscellaneous		
9.1	ESG becoming more eco viable	Subcategory relating to ESG becoming more economically viable due to tariffs on non-ESG ways of working or subsidies for ESG products, activities, etc.	1
9.2	Dual materiality principle	Subcategory relating to dual materiality principle which means investors should consider how their investments affect the environment, but also how their investments can be impacted by environmental risks as well (inside out and outside in principle)	1
9.3	SME financing is riskier	Subcategory relating to SME financing being riskier	1
9.4	One-pager ESG mission	Subcategory relating to ESG mission being clearly and concisely communicated and understood is superior to ESG mission in detail that is not understood	1
9.5	Non-financial info required	Subcategory relating to the non-financial information being required by finance providers when making a financing decision	2
9.6	ESG in government	Subcategory relating to ESG to be incorporated on the government level and by government officials as well	1
9.7	Finance as prerequisite for innovation	Subcategory relating to financial instruments and innovation as a prerequisite for innovation in the wider economy	3

Nº	Category	Definition	#
9.8	Political governance failure	Subcategory relating to the failure of governmental administration causing more companies to adopt ESG practices and tackle soc or env issues	2
		<i>Total coded segments</i>	301

Table 2. List of Subcategories, Their Definitions and Frequency of Occurrence; Source: Author's own elaboration