**COP 28 Report Draft**

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Proposed Title:

‘**Greenprint for Growth: Bridging the SME Sustainability Reporting Gap’**

**Tone**: Positive and analytical, focussed on new and exciting changes and opportunities available to SMEs, and how to unlock these for more businesses.

Structure:

* Summary and recommendations [so we can break these pages out]
* What’s in this paper [for detailed readers]
* The challenge we are seeking to address
* Stakeholders and summary of requests
* SME interest and engagement is rising rapidly
  + The size of the prize / 21% of SMEs are ‘ready and willing’ to report
* Reporting challenges
* Financial Services sector [NatWest]
* Our ideal standard
* Broader recommendations
* Conclusion
* Appendix

Executive Summary

**Introductory paragraph**

In the wake of compounding environmental crises and a collective push towards a realistic net zero pathway, we know that Small and Mid-sized Enterprises (SMEs)[[1]](#footnote-1) have a crucial role to play. This study shows the increasing pressure that SMEs are under, especially from their customers, supply chains and governments, to demonstrate their contribution in reaching the world’s net zero ambitions. Strong majorities of SMEs report making claims to stakeholders – as diverse as banks, customers, suppliers and employees – about their sustainability. Many report that these claims are increasing in frequency and complexity.

Yet, this report shows that overwhelmingly majorities **do not have the resources or data to evidence these claims**.

This study demonstrates the strong connection between the ability for an SME to report on its sustainability progress and the ability and willingness for SMEs to take action. By reporting well, this study shows that SMEs can access a huge range of benefits, from being able to better attract new customers to accessing green finance and attracting sustainability-conscious employees. This report details the size of the prize we can unlock if we can simplify and standardise the ways SMEs do sustainability. a greater amount of more effective reporting.

**Key findings from our global survey of SMEs**

* Over 8 in 10 SMEs (83%) say that **sustainability is important** to their business, up from 76% among countries surveyed in 2022.
* 65% of SMEs say that they are feeling **more pressure** to reduce their environmental impacts, with by far the greatest impacts coming from **their customers** (59% of respondents).
* 7.7% of SMEs **say that they are undertaking ESG reporting, with the vast majority focussing only on environmental measures**.
* A further 21% are ‘ready’ and ‘willing’ but are not yet measuring their impacts. Based on this analysis, we estimate there is the potential to **triple the number of SMEs who report in the next two years**.
  + Globally, this would represent **51 million extra SMEs** reporting on their ESG impacts.
* 73% of SMEs are concerned about the **upfront costs** of reporting and 65% of SMEs describe the current reporting standards as **complex**. These present the two key ‘upfront’ barriers to environmental reporting.
* 63% of SMEs report that **digital technologies** are important for making the environmental process easier for them.

**Summary**

There has been an inflection point for SME climate action. Compared to last year, more SMEs have ESG-related policies in place and more describe sustainability as being important to their business. A majority are now trying to reduce their environmental impact.

For SMEs, their environmental and ESG records are increasingly important to a broad range of stakeholders. A key theme in our survey is their role in securing and maintaining customers. This study finds that almost six-in-ten SMEs are feeling significantly more pressures from customers, with SMEs strongly recognising the business case for implementing these changes. Secondly, many report feeling more pressure from their wider supply chain alongside governments and even banks, where there is increasing evidence that greener businesses can build better relationships with financial institutions, notably borrowing at reduced rates or on superior terms.

However, despite strong willingness to reduce their environmental impact and experiencing increasing pressure to do so, few SMEs understand or report on the environmental impact of their operations, let alone their broader ESG impacts.

This study estimates that only 7.7% of SMEs currently report on their sustainability impacts and only 0.7% report on their ‘S’ and ‘G’ impacts. This leaves SMEs at risk of coming under more pressure to take environmental and ESG actions, without robust measurements and mechanisms to demonstrate and record their success. Worryingly, without being able to understand and measure their sustainability impacts, SMEs won’t be able to identify and plan the right solutions for their business. Taken together, this report finds a very strong link between effective reporting and effective action.

Despite relatively low levels of current reporting, this study identifies a large segment of SMEs who could start reporting. We class **21% of SMEs as ‘ready’ and ‘willing’** but haven’t yet started measuring their impacts. This study demonstrates that with the right frameworks and support in place, there is the potential to dramatically increase the number of SMEs reporting in the coming years.

These findings suggest that SMEs are increasingly recognising the importance of sustainability and reporting. However, there is still a gap between their intentions and their actions. This is driven by a number of factors, such as the high upfront costs of reporting, the complexity of reporting standards, and the lack of resources and expertise.

**Recommendations**

**Standard Setters**

First, standard setters have a pivotal role in creating reporting standards which SMEs can effectively report on. Through our analysis of the regulatory landscape and our survey of SMEs, this report has identified a set of reporting principles for standard setters.

**Standard setters should:**

1. **Provide user friendly guides and illustrative examples. SMEs should be able to use automated solutions to report.** Reporting requirements should be accompanied by supporting visuals such as calculation methodology examples, ‘best practice’ disclosures, templates and pro-formas. SMEs should be able to use automated solutions, e.g. apps, to automatically pull data and place them into a reportable format.
2. **Establish consistent ESG terminology.** It is important to clearly define and simplify key terms, topics, and metrics across the industry.
3. **Assess interoperability of SME standard with leading market standards. This means that when an SME satisfies the requirement of one standard, they automatically meet the requirements of selected other standards.**
4. **Prioritise data accuracy in reporting guidance.** There is a critical need for SMEs to report ‘actual’ ESG data rather than rely on modelled estimates. Their ability to provide more accurate information to key stakeholders will contribute to increased transparency over global progress towards ESG goals and ultimately SMEs should be rewarded for the progress they make.
5. **Consider proportionality in the number and type of data requests being made of an SME.** All requests need to be proportionate and realistic for a business with limited resources to comply with.
6. **Consider materiality of topics and metrics requested of an SME.** Reporting requirements should prioritise the most material ESG areas, so that SMEs with limited capacity can focus their data collection, processing, and reporting efforts.

**Industry and Government**

Public policy and the actions of wider industry will also have a crucial role in enabling SMEs to effectively report on their sustainability data. Even with the right standards, SMEs need an environment which will overcome key barriers such as cost and complexity. This report has identified the following three recommendations for industry and government to take to support the introduction of the above reporting principles:

1. **Build infrastructure to support SMEs with environmental reporting**

Industry leaders and governments should build infrastructure to support SMEs with environmental reporting. This could include developing shared tools and datasets, establishing common data models, and leveraging existing data repositories.

1. **Raise awareness of the importance of environmental reporting among SMEs**

Industry organisations, businesses, and governments should raise awareness of the importance of environmental reporting among SMEs. They should showcase the potential benefits of reporting, such as access to markets, funding, and cost efficiencies.

1. **Promote the use of digital technologies for environmental reporting**

Companies should develop and promote the use of digital technologies to help SMEs with environmental reporting. This must include developing affordable and user-friendly tools to help SMEs collect and report on their environmental data automatically.

**What's in this paper**

Sage and ICC engaged with PwC and Strand Partners to understand the challenges and opportunities of ESG reporting for SMEs. Strand conducted a survey to measure SMEs' attitudes and perceptions towards sustainability reporting. PwC conducted a detailed review of the regulatory landscape and engaged with subject matter experts.

SMEs are critical to achieving global social and climate-related goals, such as the Sustainable Development Goals and The Paris Climate Agreement. This report from Sage, PwC, ICC, and Strand provides key insights into the challenges and opportunities of sustainability reporting for SMEs.

**A global study of SMEs**

Strand conducted a survey of 16,423 SMEs in 16 markets to understand their attitudes and perceptions towards sustainability reporting. The survey found that SMEs are generally supportive of ESG reporting but face a number of challenges, including limited resources and expertise, and a lack of clarity on reporting requirements.

**A review of ESG reporting frameworks**

PwC and Sage conducted a review of cross-sector global ESG reporting frameworks to understand the kinds of data demands being made, recurring key topics, industry-specific observations, and reporting challenges for SMEs. ESG reporting frameworks are complex and can be difficult for SMEs to navigate. Additionally, there is a lack of consistency between different frameworks, which can make it difficult for SMEs to compare their performance to others.

[Box out] This study uncovered that a large majority of SMEs – if they do report – are mostly engaged with sustainability reporting. Therefore, unless specifically discussing an ‘ESG’ framework or report, we have used the term ‘sustainability reporting’.

[Box out] SMEs are defined in this study as any organization with <250 employees. [Box out]

**The challenge we are seeking to address**

Thee is rising concern that the world is not on track to meet its crucial 1.5C target. This is a stark reminder of the rising urgency that necessitates sustainability action across all organisations, big or small. Sustainability is one factor helping to drive this action by requiring organisations to measure, assess, manage and disclose progress against ESG topics such as greenhouse gas (GHG) emissions and water usage.

Due to their size, SMEs are likely to have a relatively small environmental and carbon footprint. However, their aggregate contribution is significant; for example, SMEs are contributing 160 million tonnes of non-household GHG emissions in the UK alone, equating to 44% of total emissions (Sage, 2022). Meanwhile, their contribution to GDP is estimated at £1 trillion, or 50% of the UK’s total GDP (Sage, 2022).

Therefore, the ability of SMEs to drive real impact towards Net Zero and wider sustainability action towards the UN Sustainable Development Goals should not be underestimated.

However, in comparison to large entities, SMEs have limited capacity and capability to report on sustainability topics. Therefore, they often rely upon the use of modelled data instead of "actual" data. This reduces transparency over any economy-wide progress towards the UN Sustainable Development Goals and net zero. Such lack of clarity makes it difficult for government, the private sector, and financial institutions to make the necessary strategic decisions to purposefully drive action.

If SMEs trail behind on the sustainability agenda, they will disadvantage themselves in a market of increasing sustainability sentiment, where emphasis from consumers is placed on purpose-driven enterprises. This will not only hinder SMEs’ ability to compete against larger entities with a track record of sustainability action but will also limit their ability to attract new talent, reduce their access to capital (both public and private), and will increase costs resulting from a lack of action (for example, energy efficiency measures).

[Infographic style:]

Key challenges and opportunities of sustainability reporting for SMEs:

Challenges:

* Limited resources and expertise
* Lack of clarity on reporting requirements
* Complex and inconsistent ESG reporting frameworks
* Difficulty in collecting and analysing data
* Cost of reporting

Opportunities:

* Improved access to finance and investment
* Increased customer loyalty and brand reputation
* Reduced operational costs and risks
* Attract and retain top talent
* Enhance innovation and competitiveness
* Contribute to sustainable development
* Increased eligibility and preference in public sector contracts

**Who is asking SMEs about their sustainability records, and what are they asking?**

As discussion about sustainability impacts gain momentum globally, SMEs are making more claims about their sustainability impacts to internal (e.g. employees) and external (e.g. customers) stakeholders. In this environment, our study finds that an increased number of diverse stakeholders have requested data about sustainability impacts from SMEs. They include:

**[Icons for each]**

* **Regulators**: Governments around the world are increasingly passing regulations that require companies to report on their sustainability performance. For example, the European Union's Corporate Sustainability Reporting Directive (CSRD) will require all large companies and all listed SMEs to report on sustainability issues from 2024 onwards. This will put pressure on SMEs in the value chains of these companies to also report on their wider ESG performance.
* **Large enterprises/customers:** Many large companies are now requiring their suppliers to report on their sustainability and wider ESG performance. This is because these companies are under pressure from their own customers and investors to reduce their environmental and social impact.
* **Financial institutions:** Financial institutions are increasingly taking ESG factors into account when making lending and investment decisions. They are under pressure from their own investors and regulators to reduce their exposure to ESG risks.
* **SMEs themselves:** Many SMEs are choosing to report on their sustainability performance in order to improve their reputation, attract and retain customers and employees, and access finance. For example, the B Corporation certification program is a voluntary certification program that recognises businesses that are meeting high standards of social and environmental performance, accountability, and transparency.
* **The public**: As awareness about sustainably continues to grow, consumers are increasingly prioritising businesses that operate sustainably and ethically. They often seek transparency about the sustainability performance of the businesses they purchase from, exerting pressure on companies, including SMEs, to demonstrate responsible practices and contribute to positive societal change.

[Infographic style]

Examples of sustainability reporting requests from stakeholders:

* A large retailer may require its suppliers to report on their greenhouse gas emissions and their labour practices.
* A bank may require its borrowers to report on their ESG risks, such as their exposure to climate change and their supply chain management practices.
* An investment firm may screen its potential investments for ESG performance.
* A customer may choose to buy products or services from companies that are committed to sustainable practices.

SME interest and action on sustainability is rising rapidly

The number of SMEs interested and engaged with the sustainability agenda is rising rapidly, as measured in the differences our studies of SMEs from 2022 to 2023. This study shows an increasing number of SMEs seeing sustainability as important to their business, making public claims about sustainability and taking sustainability actions. Today:

* 83% of SMEs say that sustainability is important to their business.
* 58% of SMEs have made a public claim about their sustainability records.
* 65% of SMEs are taking sustainability actions.
* 62% of SMEs are currently taking steps to improve their environmental impact.
* 56% of SMEs have an ESG-related policy.

There has been a significant rise in climate action by SMEs. Compared to last year, more SMEs have ESG-related policies in place and more describe sustainability as being important to their business. A majority are now trying to reduce their environmental impact.

For SMEs, their environmental and sustainability records are increasingly important to securing and maintaining customers. This study finds that almost 6 in 10 SMEs are feeling significantly more pressure from customers, with SMEs strongly recognising the business case for implementing these changes. 65% of SMEs say that they are feeling more pressure to reduce their environmental impacts.

The number of SMEs interested and engaged with the sustainability agenda is rising rapidly. 83% of SMEs say that sustainability is important to their business, up from 76% among countries surveyed in 2022. As sustainability rises up the agenda of business priorities, 65% of SMEs are taking sustainability actions, 58% are making public claims about their sustainability, and 56% have an ESG-related policy.

However, despite strong interest in reducing their ESG impacts, few SMEs are currently reporting on the sustainability impacts of their own operations, let alone broader ESG impacts in their supply chain.

This study estimates that only 7.7% of SMEs currently report on their sustainability impacts and only 0.7% report on their ‘S’ and ‘G’ impacts. This leaves SMEs at risk of coming under more pressure to take environmental and ESG actions, without robust measurements and mechanisms to demonstrate and record their success. This study finds that a further 21% of SMEs are ‘ready’ and ‘willing’ but haven’t yet started measuring their impacts. With the right frameworks and support in place, there is the potential to dramatically increase the number of SMEs reporting in the coming years.

SMEs are increasingly recognising the importance of sustainability. However, there is still a gap between their intentions and their actions. Ultimately, this could leave significant portions of SMEs at risk of not being able their progress internally nor communicate this effectively to stakeholders. In order to support SMEs to escalate their sustainability action – which is required in order to reach our ambitious global targets – this is a vital issue to address.

**[Infographic style page]**

**A Profile of 21% ‘Ready and Willing’ SMEs**

This study has identified a clear group of SMEs (21% of SMEs surveyed globally) who are highly engaged with the ESG and sustainability agenda – including talking about their records externally - but are not yet reporting on their impacts.

**We define these SMEs as:**

* Believing that sustainability is important to their business
* Have at least some ESG / sustainability policies about how their business operates
* Have made an external claim e.g. to customers about their environmental impact
* Have heard of ESG reporting but haven’t started yet
* Are currently taking other measures to improve their environmental impact e.g. have mapped the environmental impact of different business processes

**Ready:**

* Much less likely to say that they don’t have management buy-in (6% vs. 29%)
* Much less likely to say that they have a lack of skills or knowledge (10% vs. 21%)
* 82% say that they have a strong knowledge of the environmental impact of their operations
* 84% say that they have a strong knowledge of the environmental impact of their products

**Willing:**

* 84% say that their business has taken measures to learn more about climate change (vs 65% overall)
* Much more likely to say that they are currently cutting their businesses’ environmental impact (67% vs. 51% overall)
* More likely to say that they are encouraging their customers to use their products more sustainably (79% vs. 58% overall)

**Key barriers:**

1. High upfront cost (66% believe that upfront costs are too high)
2. Complexity (71% believe that it’s too complex)

[Map of ‘Ready and Willing’ SMEs and their locations globally]

**The size of the prize**

This study illustrates the significant number of SMEs who could report on their ESG impacts with the right tools and regulatory environment.

* If these findings are applied to the global SME population, **51 million more SMEs** would report on their ESG impacts.[[2]](#footnote-2)
* Based on existing modelling by NatWest, if 51 million additional businesses could accurately report on their ESG impacts it would be worth $789 billion to the global economy.[[3]](#footnote-3)

**Reporting Challenges**

SMEs are faced with a perfect storm whereby a rising volume of increasingly complex sustainability and ESG requirements cannot be addressed by SMEs due to their limited capacity and capability. This is driving SMEs’ number one barrier to reporting: upfront costs, which can be insurmountable for a small organisation with limited cash flow.

These costs include the cost of collecting data, developing and implementing a reporting system, and auditing the report.

* 73% of SMEs are concerned about the upfront costs of reporting. This suggests that there is a need to simplify reporting standards and make them more tailored to the needs of SMEs.
* Furthermore, the cost implications of reporting demands are not transparent or clear to many SMEs. Regardless if actual costs of reporting, a lack of transparency can escalate concerns significantly.
* **Complex reporting standards:** Due to a lack of standardisation, reporting standards can be complex and difficult to understand. It can be difficult for SMEs to know which ones apply to them and how to comply. Standards and frameworks involved in ‘value chain reporting’ i.e. understanding ESG impacts across a supply chain, are often unclear about what kind of information a large enterprise could collect and report on regarding their ‘value chain’ e.g. SME suppliers.
  + 65% of SMEs state current reporting standards are complex and that they would be more likely to engage in environmental reporting if standards were tailored and simpler.
* **Lack of capability/knowledge:** The vast majority of SMEs lack ESG or sustainability specialists within the organisation. Some ways in which this comes to life:
  + When large enterprises are making data requests it is not always explained why or how this data will be used. This also makes it difficult for SMEs to understand how the organisation requesting data is incorporating SME data to determine which companies in their value chain are high risk, which creates fear for SMEs since they do not want to be excluded from participating.
  + A lack of understand as to when the size / activities of their business triggers.
  + There is a lack of guidance in the way that materiality is assessed, with some requiring continual reassessment and recalibrations of what counts as material. e.g. dynamic materiality.
* **High volume of data requests and lack of capacity:** SMEs often lack the resources to develop and implement an environmental reporting system. The lack of clear guidance available to help SMEs understand what is in scope and why it is relevant, means ESG is often not prioritised.
  + Lack of clarity on who is subject to requirements. This means some regulations might be unknowingly triggered by SMEs without them being made aware. For example, while The European Union’s CSRD initiative focuses solely on the European Union, UK based organisations may be covered under the legislation if they have just one employee in a member state. This will mean they must comply with the recruitment pay transparency requirements. Thus, a burden is placed on SMEs to do the scoping necessary to understand if they trigger compliance
  + SMEs are often restricted in their capacity and capability as a result of their size, meaning they can lack the infrastructure necessary to meet data demands. For example, they are less likely to have the necessary expertise and capacity to collect large quantities of ESG data to meet requirements.

**Financial Services Deepdive overview**

The Financial Services industry has an enormous impact on the economy and on support SMEs to effectively report on their sustainability and ESG impacts. While they have a pivotal role in driving change across the economy (for instance by tying financing to reporting), without effective action and management, the sector risks imposing the high cost and data management on SMEs.

The sector is stepping up to support SMEs a range of ways, especially in encouraging proportionate and effective requests for data, and in providing them with tools to make it easier and more cost effective for SMEs to report:

NatWest – Case Study

NatWest’s [Carbon Planner](https://www.natwest.com/business/green-banking/carbon-planner.html) is now powered by [Sage Earth](https://www.sage.com/en-gb/company/digital-newsroom/2022/12/05/spherics-completes-integration-into-sage/), automating a key part of the process of calculating a company’s greenhouse gas emissions. It does this by processing data from a company’s accounting software and matching transactions to emission factors to create an estimate of the environmental impact of the company’s purchases. The software then guides the business to refine their emissions estimate by submitting additional data (e.g. energy usage, employee commuting patterns).

The NatWest [Carbon Planner](https://www.natwest.com/business/green-banking/carbon-planner.html), powered by Sage, is a free tailored solution that provides personalised actions based on customer data designed to help UK businesses manage their future fuel and operational costs and reduce their carbon footprint faster. As well as cutting emissions, the platform has the potential to reduce inefficiencies, save time and money, and help businesses become more competitive.

The Carbon Planner also provides information and useful resources to help businesses on their journey to net zero. The planner is available online to all UK businesses and is not limited to NatWest customers.

**Reporting principles for the ideal standard**

The sustainability and ESG landscape is complex and overwhelming for many SMEs, which are constrained by time, funding and resources to tackle the various disclosure requirements.

Sage and PwC conducted a detailed review of the ESG regulatory landscape for SMEs, which identified 50+ global cross-sector standards and frameworks that would affect SMEs, whether directly or indirectly: for example, through value chain requests from larger entities. As a result, we outlined key reporting principles with illustrative examples and initial key topics that policy makers and regulatory authorities may consider for any reporting requirements directed towards SMEs. These should serve as a **starting point** for market-wide collaboration to establish the most appropriate reporting standard for SMEs, building on the work done by the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG) for the European Union’s Corporate Sustainability Reporting Directive (CSRD).

**We have identified 6 reporting principles for standard setters which will enable SMEs to report on their sustainability impacts in a more effective and efficient way.**

**Key Reporting Principles**

1. **Establish consistent ESG terminology.** It is important to clearly define and simplify key terms, topics, and metrics across the industry. This reduces the regulatory burden and potential for SMEs to misinterpret disclosure requirements, and strengthens comparability and understanding of metrics in the market.  
     
   Key Question: *Is the language detailed within this disclosure requirement driving consistency across the ESG regulatory landscape?*

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| **Potential implementation steps** | **Examples seen in the market** |
| A clearly defined list of sustainability topics | The Sustainability Accounting Standards Board (SASB) materiality finder allows you to search for the definitions of sustainability topics for materiality consideration ([SASB Materiality Finder](https://sasb.org/standards/materiality-finder/)) |
| Alignment of ESG terms and language between standards | EFRAG (CSRD) and Global Reporting Initiative (GRI) ‘definitions, concepts and disclosures regarding impacts are fully or, when full alignment was not possible due to the content of the CSRD mandate, closely aligned’. ([EFRAG-GRI joint statement of interoperability](https://efrag.org/news/public-444/EFRAG-GRI-Joint-statement-of-interoperability-)) |

1. **Assess interoperability of SME standards with leading market standards.** Regulatory bodies need to consider opportunities for convergence and need to, highlightingwithin the standard where meeting disclosure requirements will enable an SME to satisfy the requirements of another standard, reducing and SME’s burden to make this assessment themselves.

**Key question:** *Does this standard allow an organisation to disclose against other standards using similar information?*

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| **Potential implementation steps** | **Examples seen in the market** |
| Alignment of scoping and calculation methodologies of a disclosure metric against leading market disclosures. | EFRAG and ISSB have collaborated and created a linear table detailing the level of interoperability between European Sustainability Reporting Standards (ESRS) information corresponding to IFRS requirements ([IFRS – ESRS Mapping table: Climate change](https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2307280747599961%2F04-02%20EFRAG%20SRB%20%20230823%20-%20EFRAG%20IFRS%20interoperability%20and%20mapping%20table.pdf), Page 4) |

1. **Prioritise data accuracy in reporting guidance.** There is a critical need for SMEs to report ‘actual’ ESG data rather than relying on modelled estimates. Their ability to provide more accurate information to key stakeholders will contribute to increased transparency over global progress towards ESG goals. Standards should enable this accuracy of reporting by providing clear guidance that supports SMEs.

**Key Question:** *Does this standard provide practical guidance for an SME to report the most accurate data available?*

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| **Potential implementation steps** | **Examples seen in the market** |
| Clear guidance on what data inputs qualify as accurate information. | GRI lays out a number of ‘Accuracy Principles’ for users to apply. ([GRI 1: Foundation 2021, Page 20](https://globalreporting.org/pdf.ashx?id=12334&page=1)). |
| Positive language prioritising actual data for an SMEs material ESG reporting topics. | The GHG protocol’s Scope 3 standard highlights how companies should ‘prioritise data quality improvement for activities that have relatively low data quality and relatively high emissions. ([Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Page 86](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard-EReader_041613_0.pdf)) |
| Practical guidance on how to increase ‘actual’ ESG data over time. | The GHG protocol’s Scope 3 standard appendix C is a useful resource for developing and improving data management. ([Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Page 134](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard-EReader_041613_0.pdf)) |
| Requiring transparency over modelled calculations, highlighting clearly where actual data versus estimated data is used. | The GHG protocols Scope 3 Standard Appendix B provides guidance on uncertainty.([Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Page 130](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard-EReader_041613_0.pdf)) |

1. **Provide user friendly guides and SMEs should be able to use automated apps to measure their sustainability impacts.** Reporting requirements should always be accompanied by supporting visuals such as calculation methodology examples, ‘best practice’ disclosures, templates and pro-formas. Even better, SMEs should to be able to measure their sustainability data using automated solutions, which can significantly reduce the cost and time spent on measurement activities and open the door for the many SMEs who would struggle to consistently update and review data. These automated solutions can present information in a structured format, resulting in a compliant report. Further, when issuing requests, standard setters should highlight how efficient reporting will also create value for the SME. By providing guidance that showcases the financial materiality of ESG compliance e.g., to manage ESG risks, SMEs will be motivated to take ESG action that goes beyond reporting.

**Key Question:** *Is the standard as easy to follow as possible for SMEs with varying knowledge levels?*

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| **Potential implementation steps** | **Examples seen in the market** |
| Create “How to” guides. | The GRI Universal Standard clearly outlines the structuring of the System of GRI Standards and how to navigate. ([GRI 1 Foundation 2021, Page 4](https://globalreporting.org/pdf.ashx?id=12334&page=1)) |
| Dictate to SMEs their value creation opportunities through reporting. | GRI does this at a high level describing how their standards allow public disclosure of impact supporting users to make informed decisions about the organisation. ([GRI 1 Foundation 2021, Page 4](https://globalreporting.org/pdf.ashx?id=12334&page=1)) |
| Tools and templates. | SBTi provides tools for companies to develop appropriate emissions reductions targets. ([SBTi-target-setting-tool](https://sciencebasedtargets.org/resources/files/SBTi-target-setting-tool.xlsx)) |

1. **Consider proportionality in the number and type of data requests being made of an SME.** Even within the SME category, one size doesn't fit all, and requests need to be proportionate. There is a significant difference in the reporting capabilities of a business with 249 employees and significant turnover compared to a micro-business with five employees.

**Key Question:** *Does this disclosure requirement consider the feasibility of reporting for varying types and sizes of SMEs, offering practical options for SMEs to meet requirements?*

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| **Potential implementation steps** | **Examples seen in the market** |
| Incorporating staggered reporting requirements. | ISSB provides a ‘transition relief’ where companies are allowed to report sustainability-related financial disclosures after their financial statements in the first year of application. ([IFRS S1, Page 44, Appendix E](https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf?bypass=on)) |

1. **Consider materiality of topics and metrics requested of an SME.** Reporting requirements should prioritise the most material ESG areas, so that SMEs with limited capacity can focus their data collection, processing, and reporting efforts.  
     
   Key Question: *Does the standard prioritise business activities that have greater negative ESG impacts (i.e., more material) to be reported on?*

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| **Potential implementation steps** | **Examples seen in the market** |
| Staggered reporting requirements. | ISSB has a ‘climate-first’ option which allows smaller SMEs to focus efforts on material ESG topics ([IFRS Sustainability Disclosure Standards, Page 14](https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on)), whilst the Uyghur Forced Labor Prevention Act (UFLPA) has a risk-based approach, dynamic in nature, that prioritises the highest-risk goods. [(UFLPA Strategy, Page 27)](https://www.dhs.gov/sites/default/files/2022-06/22_0617_fletf_uflpa-strategy.pdf) |
| A clearly defined list of potentially material ESG topics mapped to sectors and subsectors to assist identification of material topics. | UFLPA highlights high priority sectors and forced labour indicators e.g., Lack of Supply Chain Visibility [(UFLPA, Page iv)](https://www.dhs.gov/sites/default/files/2022-06/22_0617_fletf_uflpa-strategy.pdf) |
| Guidance on how to identify material ESG topics with underlying criteria that can be used to assess materiality and examples of what might be deemed high vs. low materiality. | GRI provides easy user-friendly guidance to determine material topics broken down into “understand, assess, identify & prioritise.” ([GRI 3: Material Topics 2021, Page 7](https://globalreporting.org/pdf.ashx?id=12453&page=7)) |
| Minimum mandatory requirements for SMEs to report on material ESG topics in their first year to allow an ‘on ramp’ for those with limited capacity and capability. | ESRS for Listed SMEs considers the diversity of target groups and proposes to take a sector agnostic approach for SMEs in the first phase and move the simplified requirements to the sector-specific layer of ESRS. ([ESRS for Listed SMEs - Issues Paper, Page 3](https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2211041503270617%2F05-01%20Issues%20Paper%20Approach%20to%20the%20Development%20of%20European%20Sustainability%20Reporting%20Standard%20for%20Listed%20SMEs%20SR%20TEG%2017112022%20fin.pdf)) |
| Flexibility for omission of topics that are not deemed material to an SME. | GRI 2 permits reasons for omission for the majority of disclosures. ([GRI 1: Foundation 2021, Page 14](https://globalreporting.org/pdf.ashx?id=12334&page=1)) |

Per our review of 50+ global standards and our survey research with SMEs around the globe, we have identified the most commonly occurring ESG topics across the current ESG regulatory landscape are:

|  |  |  |
| --- | --- | --- |
| **Key topics2** | **Underlying disclosure sub-topics1** | **Why else do these metrics make sense?** |
| **GHG Emissions**  *6% of SMEs are reporting GHG emissions* | * Absolute emissions & emissions intensity * GHG Methodology * GHG Assurance | * There is significant existing guidance around emissions reporting * There are global efforts to move towards a lower carbon economy * There are technologies that can help automate the process |
| **ESG Risk Management3** | * Risks from climate change * Quantitative indicators with respect to targets, risks and opportunities * Risks from transition to low carbon economy | * Instil organisational resilience to risks resulting from e.g., climate change * Plan risk mitigation and management responses to reduce financial risk * Key topic for investors |
| **Net Zero strategy**  *6% SMEs are reporting energy consumption and efficiency measures* | * Net Zero Targets * GHG Reduction Strategy | * To be able to hit net zero, a strategy needs to be in place * It is necessary to monitor progress at set intervals, requiring comparable reported data * There are existing technologies to assist |
| **Ethical labour practices**  *1% SMEs are reporting corporate governance and ethical business practices* | * Diversity, Equity & Inclusion (DEI) * Executive Pay * Pay Equity | * Key topic for investors and stakeholders (i.e., customers) to achieve greater transparency of human rights management in their supply chain * To meet the UN SDGs, there needs to be transparency over organisational policies in place to meet social requirements |
| **ESG strategy**  *5% SMEs are reporting water usage and conservation efforts whilst 4% are reporting waste generation and management strategies* | * Business Model * Environmental Policies & Conditions * KPIs on material ESG topics (non-emissions) | * ESG strategy and commitments are key to operationalise ESG action e.g., which stakeholders to engage with and how |
| **Supply chain management and responsible procurement**  *3% SMEs are reporting supply chain sustainability* | * Diverse Supply Chain * Internal Carbon Prices * Sustainability Accreditation * Sustainable Procurement Policy | * Awareness and consideration of the subject is essential despite lack of feasibility to implement policy * A diverse supply chain will improve businesses’ resilience to e.g., climate change * Emerging interest in carbon price models |
| **Roles, responsibilities, and accountability**  1% SMEs are reporting corporate governance and ethical business practices | * Stakeholder Engagement * Stakeholder Management * Ownership * Engage with Industry | * Important to highlight roles and responsibilities to ensure accountability for ESG action * Closely tied to existing information as part of financial statement reporting |

*1These metrics are not all inclusive and are intended to provide examples of the kinds of metrics that may be included in this topic*

*2See appendix for detail of research methodology, resources, and results*

*3This topic was not included as an option for SMEs when asked what they were already reporting regarding ESG, however, it was the second most frequently occurring topic across the ESG regulatory review. This suggests an emphasis for SMEs to consider risks associated with ESG e.g., increased frequency of extreme weather events as a result of climate change.*

**RECOMMENDATIONS**

Successfully encouraging millions of SMEs to start reporting on their sustainability impacts will require concerted effort from governments, industry and standard setters. Therefore, alongside the ideal standard, this report makes recommendations for how industry and government can lead to more efficient SME sustainability reporting.

**Recommendations for industry leaders and government**

Industry leaders and government need to create the right environment for SMEs to accurately and efficiently report on their sustainability impacts. They can do this by **building the infrastructure** needed to support SMEs with reporting, **raising awareness of the benefits of reporting and promoting the use of digital solutions**.

**Build infrastructure to support SMEs with environmental reporting**

Given the limited data-gathering capacities and capabilities many SMEs have, there is a critical need to build infrastructure to practically and accurately enable them to meet ESG data demands. We cannot make meaningful progress against global or national net zero targets on a baseline of modelled figures. Establishing common infrastructure will reduce the burden on individual SME’s to meet these new demands.

Having a harmonised data model, accessible to all SMEs, that can be embedded into their organisations and consistently recognised through the market is key.

Existing data repositories will also be critical in driving this system infrastructure. These include stock exchanges, financial markets infrastructure providers like the London Stock Exchange Group, and data analytics firms like Experian, amongst others. The solution is not to introduce more products into the market, but rather to find harmony between existing systems: simple, open and transparent data models.

[Call out box example] [Bankers for Net Zero (B4NZ)](https://www.bankersfornetzero.co.uk/) is an initiative working to create a “nexus of industry commitments, policy development, regulation, business and civil society”. Through Project Perseus, B4NZ has identified the lack of a common reporting process for SMEs and the subsequent inaccurate and incomplete data as a major challenge, which it aims to tackle by developing market solutions to ease the flow of accurate data through cross-sectoral collaboration.

By creating market infrastructure to capture actual Scope 1 and 2 data, such as smart meters for energy use with easily accessible usage information, there will be a trickle-down effect for data further down value chains. Banks are already paying for this effort, as it directly benefits them by providing a level of certainty on energy data they don’t currently have. The coalition is working with energy providers and smart meter providers to streamline the process, and is establishing a leading example of best practice for the rest of the sector.

**Raise awareness of the importance of sustainability reporting among SMEs.**

Governments, businesses, and industry organisations can work together to raise awareness of the importance of sustainability reporting among SMEs. This can help SMEs to understand the benefits of reporting and to see it as a valuable investment.

* Industry needs to showcase the potential benefits that sustainability reporting can provide. These benefits are diverse, and will come not only from cost efficiencies (e.g. due to reduced energy consumption) but also from access to markets (e.g. Carbon Border Adjustment Mechanism (CBAM), green certification etc.) and access to higher levels of funding if they are seen to be aligned with sustainability and ESG agendas. For example:

[Box out]

* + SMEs can disclose to make themselves more appealing to investors and showcase ESG action e.g. 1SMEs reporting against the Global Reporting Initiative.
  + International Organisation for Standardisation - the benefits need to trickle down to the SME e.g. ISO benefits include improved business process efficiency, reduced cost, sustainability commitment, innovation or risk reduction.
  + The benefits of certifications (for example PAS2060) - carbon neutrality certification is available to SMEs to certify carbon neutrality in operations or products.

**Promote the use of digital technologies for sustainability reporting.**

SMEs are trying to address a growing amount of complex data demands despite restrictions in capacity and capability. To address this challenge, it is important to build infrastructure in the market to aid SMEs with their ESG requirements. This could include developing affordable and user-friendly tools to help SMEs collect and report on their environmental data. It could also involve providing training and support to SMEs on environmental reporting.

Companies can develop and promote the use of digital technologies to help SMEs with environmental reporting. Digital technologies can automate the data collection and reporting process, making it easier and less time-consuming for SMEs to produce environmental reports.

There are also a number of software programs available that can help businesses to track their environmental performance. These programs can generate reports that can be used to comply with environmental reporting requirements.

Another example is the use of artificial intelligence (AI) to automate the data collection and reporting process. AI can be used to collect data from a variety of sources, such as energy bills, waste manifests, and transportation records. This data can then be used to generate environmental reports.

* 63% of SMEs report that digital technologies are important for making the environmental reporting process easier for them. This suggests that there is a need to promote the use of digital technologies to help SMEs with environmental reporting.

SMEs need consistent and structured platforms to collect data

ADD: UPS – Case Study (see copy below)

**Financial Incentives**

Financial incentivesare necessary to reduce the financial impact of upfront costs associated with the infrastructure necessary to collect and report on ESG. Some of these include:

* **Government - tax incentives.** Governments and businesses can provide financial assistance to SMEs to help them with the costs of environmental reporting. This could include grants, loans, or tax breaks.
* **Private institutions - financial incentives.** Large businesses ought to encourage companies in their value chain to report on ESG. It's also crucial for these businesses to be transparent about how ESG factors into decisions, such as procurement, to highlight value creation opportunities for SMEs that demonstrate progress in ESG. Financial incentives should be extended to those within the value chain who supply SMEs with ESG data. Additionally, support should be provided to these SMEs, assisting them in collecting more ESG data to bridge existing data gaps.
* **Access to funds via financial institutions e.g. loans.** Financial Institutions should highlight how inclusion of ESG criteria is being incorporated intodecision making processes such as due diligence and risk management, and then provide clear incentives, such as grants or loans, to motivate SMEs to report on their environmental impact.

**Conclusion**

To address the challenges and opportunities of ESG reporting for SMEs, it will take collaboration across government, industry leaders, and coalitions.

Government can play a role by making ESG reporting guidance easier to understand and highlight how it differs from mandatory reporting in large enterprises. Additionally, policymakers should consider proportionality in data requests, meaning that the number of data requests to an SME should be proportional to the impact that SME has on the value chain.

Industry leaders can play a role by working with their portfolio companies to assess what upcoming regulation looks like and by providing guidance and support on ESG reporting. Additionally, industry leaders can work together to develop best practices for data collection and reporting.

Coalitions can play a role by providing a forum for SMEs to share ideas and best practices. Additionally, coalitions can work to raise awareness of the importance of ESG reporting and to advocate for policies that support SMEs.

We are seeing collaboration happen, but it needs to happen at pace. By working together, we can create a more sustainable future for the financial sector and the broader economy.

**We call on governments, industry leaders, and coalitions to work together to address the challenges and opportunities of sustainability reporting for SMEs.** We need to make it easier for SMEs to report on their ESG performance and to, most importantly, benefit from the rewards of doing so.

It is important that these solutions are addressed to enable SMEs to positively contribute to achievement of Net Zero and not have resources diverted away from taking practical actions towards managing additional compliance burden.

**Appendix**

* **Survey methodology** *[Technical breakdown of who the survey covered, participation stats etc]*
* **Additional Survey analysis** *[Optional]*
* **Regulatory landscape review methodology and sources**

**END OF MAIN REPORT**

Methodology

Strand Partners’ specialist research team surveyed 16,423 SMEs in 16 markets between 01.09.2023 and 07.09.2023, capturing all major business demographics (from size to sector) as well as detailed information about geography (NUTS 1 region). With these results, we were able to ‘slice and dice’ by sector and geography.

SMEs were defined as those employing less than 250 people in the UK, US, Germany, France, Italy, Spain, Poland, Romania, Netherlands, Belgium, Brazil, South Africa, Thailand, Canada, Australia and Kenya.

The survey was 21 minutes long. Only 12% of respondents described the survey as being ‘difficult’ to take. Responses were targeted by quota groups to achieve representativeness. Poor quality responses were removed.

**Sampling**

The survey was conducted using a stratified random sampling method. SMEs were stratified by size, sector, and geography. A random sample of SMEs was then selected from each stratum.

**Survey**

The survey was designed to measure SMEs' attitudes and perceptions towards a variety of topics, including innovation, research and development, and access to finance. The survey was pilot-tested with a small group of SMEs to ensure that it was clear and easy to understand.

**Response rate**

The response rate for the survey was 35%. This is comparable to other surveys of SMEs.

**Data analysis**

The data was analysed using SPSS statistical software. A variety of statistical tests were used to analyse the data, including chi-square tests, t-tests, and ANOVA.

[We could insert a methodology statement for PwC’s analysis if helpful]

1. SMEs are defined as private businesses with less than 250 employees). [↑](#footnote-ref-1)
2. [Global SMEs 2021 | Statista](https://www.statista.com/statistics/1261592/global-smes/#:~:text=There%20were%20estimated%20to%20be,in%20the%20provided%20time%20period.) [↑](#footnote-ref-2)
3. Natwest, ‘Springboard to Sustainable Recovery’ report, which includes economic modelling on the value of climate and sustainable finance to SMEs. [↑](#footnote-ref-3)