

# MODEL GUIDANCE FOR SMEs TO INTEGRATE SUSTAINABLE BUSINESS PRACTICES

**A template for exchanges**  
**Part II of UN SSE Guidance on SMEs and Sustainability**

**SECOND DRAFT — 20 DECEMBER 2024**

## **DRAFT WORKING DOCUMENT**

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- ☒ Submit feedback no later than **20 January 2025** to [lisa.remke@sseinitiative.org](mailto:lisa.remke@sseinitiative.org)

## **Note to the Advisory Group**

Thank you very much for all the comments received to the First Draft. As pointed out for the First Draft, given that the two parts of the document have different target audiences (exchanges for the “how to” guidance and SMEs / issuers for the model guidance), the final publication will be in the form of two separate documents. This Second Draft already separates the guidance into two documents as follows:

- How exchanges can promote sustainable SMEs - An action plan for exchanges
- Model guidance for SMEs to integrate sustainable business practices - A template for exchanges

Together these documents comprise the UN SSE guidance package for SMEs and sustainability.

This is the final draft that will be circulated for comment. Once comments have been received and processed, the document will be finalized for publication in early 2025. For this draft, we would appreciate comments that focus on the following:

- ☒ Examples of exchange initiatives or actions that relate particularly to SMEs and sustainability.
- ☒ Information about the impacts / outcomes of initiatives relating to SMEs and sustainability.

## 36 A note to exchanges

### 37 Purpose and scope of the guidance

38 This Model Guidance provides exchanges with the building blocks to guide SMEs on the  
39 adoption and integration of sustainable business practices. It should be read together with  
40 the Action Plan “*How exchanges can promote sustainable SMEs*” (“Part I”).

41 The UN SSE has previously issued a series of model guidance documents focused on  
42 specific topics, for example ESG disclosure (2015), climate disclosures (2021) and  
43 sustainability-related financial disclosures (2024).<sup>1</sup> The SSE’s model guidance series is  
44 written in the voice of an exchange speaking to market participants and is intended to help  
45 exchanges get started on a topic. Exchanges are encouraged to replicate the text in this  
46 model guidance, customize it for their market and publish it under their own brand. It can  
47 also form the basis for education and capacity building initiatives, offering a means to  
48 achieve tangible outputs by exchanges in their efforts to work more closely with SMEs on  
49 sustainability.

50 This model guidance is not intended to replace guidance documents or other initiatives  
51 focusing on particular sustainability topics (e.g. climate disclosure), but could be used  
52 alongside those to help exchanges either develop new guidance that is tailor-made for SMEs  
53 or customize existing guidance to suit SMEs. Exchanges can target listed SMEs or cast a  
54 wider net to benefit (and potentially attract) unlisted SMEs as well.

55 What constitutes an SME varies significantly across different markets. SMEs are also  
56 present across a broad range of sectors. Accordingly, the challenges and opportunities that  
57 SMEs are faced with may vary. Exchanges know their own markets best and should  
58 leverage local requirements and definitions to focus their guidance. The guidance can be  
59 further enhanced by incorporation of jurisdiction- or sector-specific topics or examples. Local  
60 governments and organizations may have specific guidance and tools available that  
61 exchanges can tap into.

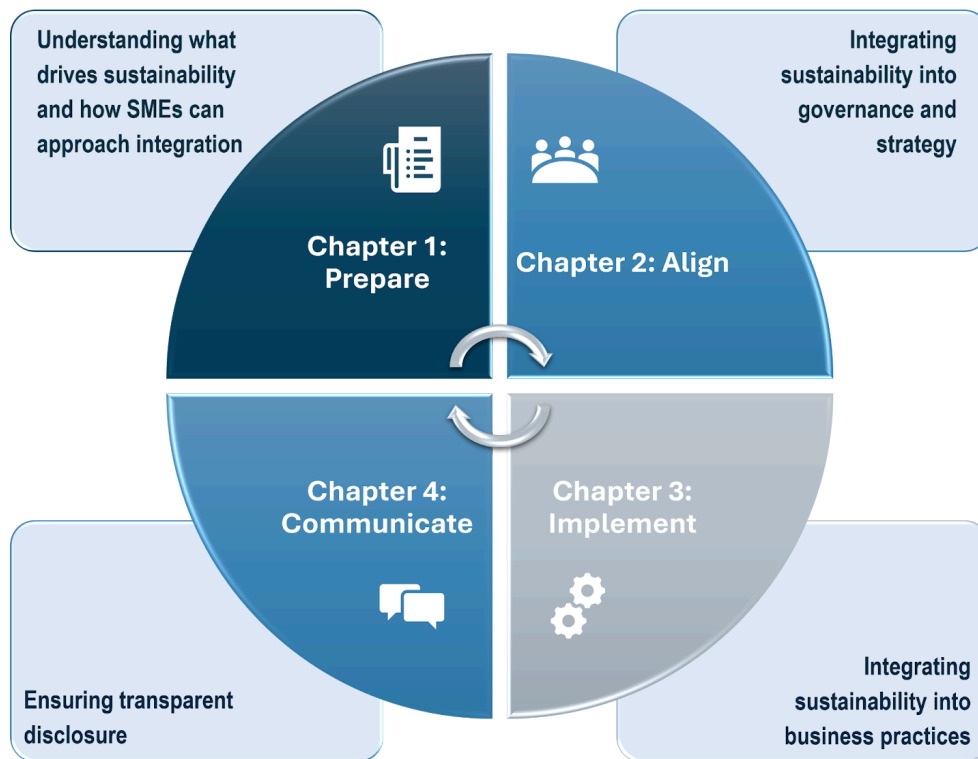
### 62 Structure of the guidance

63 This guidance is structured along a four-step process (see [Figure 1](#)) that offers a systematic  
64 approach to sustainability integration. The process is aimed to help SMEs **prepare** for action  
65 through reinforcing the relevance and importance of sustainability to their business and  
66 providing an understanding of possible approaches for action; how they can **align** their  
67 businesses to sustainable development goals by integrating sustainability across  
68 governance and strategy; how they can **implement** sustainable business strategies through  
69 risk management and operational resourcing; and how to **communicate** progress and  
70 performance through public disclosures.

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<sup>1</sup> To access all of the model guidance documents, including the Action Plan “How exchanges can promote sustainable SMEs and other  
71 publications, see the UN SSE website [Publications](#)




72 **Figure 1: The four-step process for SMEs to integrate sustainability**



Source: UN SSE

75 While the four steps are positioned as a cycle of continuous progress, exchanges can select  
 76 to focus their guidance on all aspects or to extract only portions of it - for example the  
 77 exchange may wish to facilitate an incremental approach by starting with a focus on  
 78 preparation and alignment, while others (perhaps in more mature markets) may be able to  
 79 focus on providing guidance for sustainability disclosure by SMEs.

80 Throughout the guidance, practical aspects are highlighted as follows:

	<b>Helpful tips</b> Practical suggestions for applying the principles
	<b>Illustrative examples</b> Example of application, case study or research
	<b>Tools and resources</b> Information about a tool or resource that may be helpful to the SME

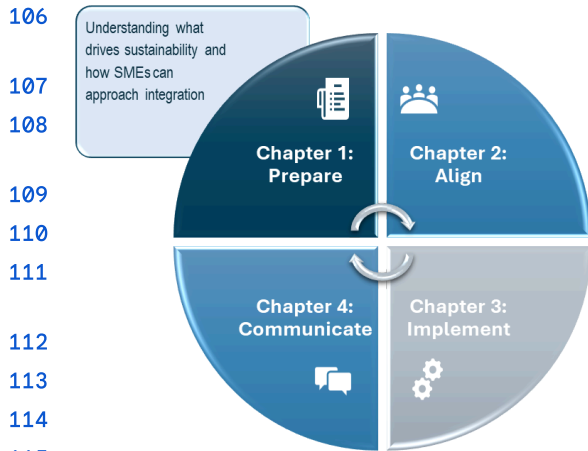
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## Chapter 1. Prepare

This chapter aims to help SMEs understand why sustainability is important and provides context for SMEs to approach integration.



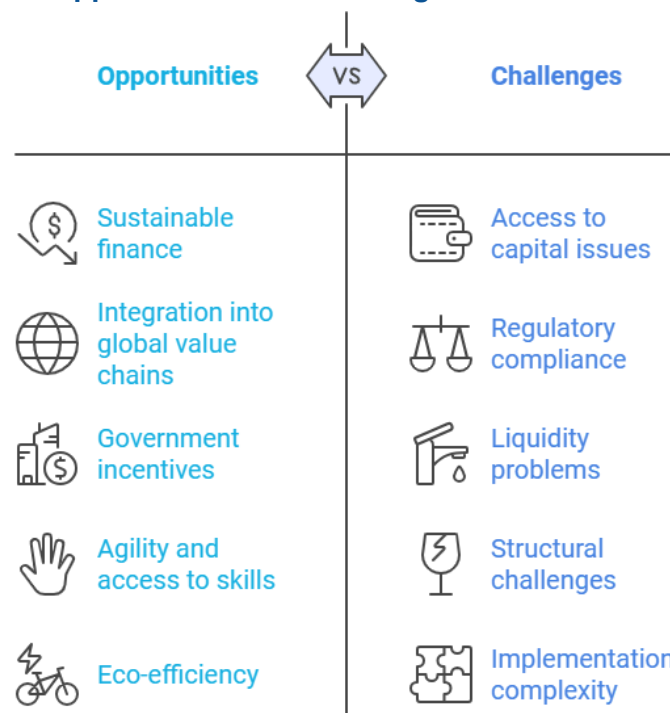
### Key takeaways:

- ☐ Understand the context of the business, including challenges and opportunities.
- ☐ Stay informed about global trends, consumer preferences, and industry standards related to sustainability.
- ☐ Review and understand the principle of proportionality to consider whether and how it could be applied during the process of integration.

## 1.1 Understanding the business context: challenges and opportunities

Undertaking a process of integrating sustainable business practices as an SME may feel daunting, and indeed the transition comes with challenges. Despite the challenges, implementing sustainability can also present opportunities for SMEs and identifying those could be an incentive for action (figure 2).

**Figure 2: Overview of opportunities and challenges for SMEs**



Source: UN SSE

The extent of **challenges** faced by an SME varies depending on factors such as the industry, geographic location and size of the SME. Strategies for SMEs to adopt sustainable business practices therefore need to be considered on a case-by-case basis.

➡ **Limited financial resources and difficulties gaining access to capital.** Implementing sustainable business practices may require upfront financial investment in, for example, technology and training that SMEs may struggle to afford immediately. Access to finance for sustainability initiatives can be limited for SMEs, especially if they are unable to provide sufficient information about their company or evidence of operational and financial performance.

➡ **Regulatory compliance.** SMEs' lack of resources and expertise can hamper their ability to meet regulatory and reporting requirements and hence lead to enforcement action by exchanges and/or other regulators.

➡ **Liquidity problems.** SMEs are easily affected by market volatility, fragmentation and lack of liquidity. Investor perceptions about the risk profile of SMEs can limit trading activity, exacerbating liquidity challenges and affecting exchange trading volumes. SME markets generally exhibit lower liquidity compared to main markets albeit, making it challenging for SMEs to raise capital and attract investors. Volatility in SME markets has increased in the post-COVID period with stimulus packages amplifying market fluctuations, especially in SME markets dominated by retail investors.<sup>2</sup> Specialized exchanges or offerings that can cater to the needs of SMEs with tailored solutions, can contribute to market stability and efficiency.

➡ **Structural challenges.** Studies show that most SMEs are unlikely to have "sophisticated divisionalized structures".<sup>3</sup> Particularly in emerging markets, these more relaxed management structures and practices have seen SMEs struggling to comply with best practices in the structural approaches and corporate governance that are often expected by exchanges and market regulators. Limited record-holding and reporting further hampers the ability of exchanges to monitor the SMEs' compliance. The IFC notes that the entrepreneurial nature of SMEs makes them people-dependent rather than process-driven. The need for rapid innovation and growth, coupled with constant competitive pressures, forces management and staff to prioritize immediate challenges. Time pressures, limited resources, and organizational constraints often means that a systematic approach to environmental, social, and economic sustainability takes a back seat.<sup>4</sup>

➡ **Complexity of implementation.** Keeping up with evolving sustainability standards, regulations and demands can be time-consuming, complex and challenging for SMEs, especially if they lack dedicated sustainability departments or expertise. In addition, stakeholders such as investors increasingly ask for granular data on sustainability performance, which SMEs are not as well equipped or motivated to provide, especially in an environment where technological solutions and policy

<sup>2</sup> World Federation of Exchanges (September 2024) [Global developments in SME markets over the past decade](#)

<sup>3</sup> Loucks, Elizabeth & Martens, Martin & Cho, Charles (2010) Sustainability Accounting, Management and Policy Journal.Vol. 1 No. 2, pages 178-200. [Engaging small- and medium-sized businesses in sustainability](#)

<sup>4</sup> International Finance Corporation (2023) [User's Guide to IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies](#)

instruments may favour larger companies.<sup>5</sup> This may jeopardize future opportunities to realize market opportunities or access finance, which is exacerbated by increasing pressure on SMEs to advance on the journey to net zero or to develop transition plans. This is a particularly strong risk for SMEs that operate in sectors with traditionally high emission levels and challenging abatement opportunities.<sup>6</sup>

In managing the challenges they may face, there are also compelling reasons for SMEs to embrace sustainability. SMEs can leverage their unique features to maximize **opportunities** in several areas. SMEs that take early action to integrate sustainable business practices are likely to be better positioned to maximize opportunities offered by green finance, business partnerships etc. and to manage an orderly, gradual transition towards more sustainable growth. Early action will also enable the SME to be resilient and responsive to regulatory changes and demands from larger organizations in the value chain.

● **Sustainable finance.** Investors increasingly incorporate sustainability criteria when making investment and funding decisions. SMEs with strong sustainable business practices may find it easier to attract investment and secure funding, at a lower cost of borrowing.<sup>7</sup>

● **Integration into sustainable global value chains.** SMEs that are positioned to respond to the sustainability standards and requirements of multinationals may find greater opportunities to integrate into sustainable global value chains. Involvement in global value chains may lead to greater productivity, higher revenue, and access to a wider range of products and services.<sup>8</sup>

● **Government incentives.** Governments and financial institutions often offer incentives, grants, or preferential financing terms to businesses that implement sustainable initiatives.<sup>9</sup>

● **Agility and access to skills and talent.** While SMEs may have limited budgets and smaller staff, their lower complexity can be advantageous. Fewer people involved in decision-making can streamline processes. Simpler lines of communication make SMEs more agile, allowing them to quickly identify and implement changes. SME personnel are cross-functional by nature and necessity, and staff may be able to assume expanded roles and new responsibilities in order to respond to the sustainability imperative. Employees increasingly seek purposeful work environments. Integrating strong sustainability values can boost morale, attract talent and support higher employee retention rates, reducing recruitment and training costs over time. In addition, demonstrating a commitment to sustainability can strengthen relationships with other stakeholders.

<sup>5</sup> Sage (November 2022) [The Climate Impact of SMEs](#)

<sup>6</sup> OECD (March 2024) [Financing SMEs and Entrepreneurs 2024 AN OECD SCOREBOARD](#)

<sup>7</sup> A 2022 study by Accenture "[Measuring sustainability. Creating value](#)" found that between 2013 and 2020, companies with consistently high ESG performance tended to score 2.6x higher on total shareholder return (TSR) than medium performers.

<sup>8</sup> OECD (27 June 2023) [OECD SME and Entrepreneurship Outlook 2023](#)

<sup>9</sup> As set out in the Financial Management article [Innovative ways to finance sustainability projects](#) in July 2023, there are examples of governments setting sustainability goals incentivizing behavior change through grants, subsidies, or targeted blended finance packages at low or preferential rates. Examples include the European Green Deal, as well as the Green Recovery Challenge Fund and Automotive Transformation Fund in the UK.



**Eco-efficiency.** Implementing operational practices focused on conservation of resources such as energy and water, reducing waste, and efficient supply chain management can lead to cost savings over time. Sustainable practices also often improve operational efficiency, which may enhance productivity.

In summary, by integrating sustainability into their business strategies, SMEs can align with market demand and increasing regulation, enhance their reputation, attract customers and investors, realize cost savings opportunities, expand competitive advantage, and build long-term resilience in a changing global economy.

This may open opportunities for the creation of collaborative efforts and partnerships to leverage technology and tools, enable knowledge transfer and enhance educational efforts. There are free tools available for business in this regard, such as the Carbon Trust's SME Carbon Footprint Calculator and the SME Climate Hub.



## Tools and Resources

### The SME Climate Hub supports SMEs in the climate transition

The SME Climate Hub<sup>10</sup> is a non-profit global initiative that aims to empower SMEs to take climate action and build resilient businesses for the future. The Hub is an initiative of the We Mean Business Coalition, the Exponential Roadmap Initiative and the United Nations Race to Zero campaign in collaboration with Normative software and the Net Zero team at Oxford University. It was launched at the 2020 Climate Week in New York.

Through partnering with NGOs, corporations, financial institutions and others, the SME Climate Hub hopes to increase the support and resources available for small business climate action. It offers free resources and guidance that SMEs can leverage to reduce their emissions. By committing to reduce their emissions through the SME Climate Hub, SMEs are counted in the UN Climate Change High Level Champion's Race to Zero campaign. The Hub mainstreams climate action for SMEs, enabling them to:

- Take action by utilizing the free tools and resources to measure emissions and discover steps and strategies to reach net zero.
- Make a credible science-aligned net zero commitment, joining the Race to Zero campaign.
- Report progress using the SME Climate Hub reporting tool.



## Illustrative Example

### Linking green innovation to better SME performance

A 2022 study from the Faculty of Economics and Business at the Universitas Mahasaraswati Denpasar in Indonesia, considered the impact of green innovation in SMEs.<sup>11</sup> The study aimed to challenge the norm that

<sup>10</sup> SME Climate Hub website

<sup>11</sup> MDPI Open Access Journals (December 2022) [Does Green Innovation Improve SME Performance?](#)



234 SMEs generally prioritize economic performance, by considering the impact of green innovation as a strategic  
235 step to increase sustainability and financial performance in the global market. Green innovation in the context of  
236 the study entailed integrating the intellectual capital of a business with the concept of sustainability, thus  
237 prompting innovation in greening product offering and processes.

238 A survey questionnaire was distributed to owners or managers of 336 SMEs in Bali, Indonesia, over three  
239 months. The study proved that environmental damage is, in fact, a large challenge for SMEs today, requiring  
240 them to tap into the intellectual capital to address the challenge. Practically speaking, equipping employees with  
241 the knowledge and skills to incorporate green technology into business operations and create processes to  
242 reduce energy consumption and harmful waste, spurs increased innovation. In addition, the strong relationship  
243 between SMEs and environmentally conscious stakeholders motivates SMEs to produce green innovations,  
244 while demonstrating proactive responses to regulatory pressures.

245 The study contends that the development of more environmentally-friendly products and processes by SMEs not  
246 only repairs environmental damage but also enhances the economic performance of SMEs. By investing in  
247 technology, these businesses could lower production costs and reduce raw material waste. Moreover, green  
248 innovation contributes to positive branding, elevating SMEs above their peers in similar sectors, which in turn  
249 strengthens their financial capacity. The findings imply that social and environmental responsibility is crucial for  
250 the long-term financial success of SMEs. Companies focused on sustainability tend to perform better, as their  
251 practices align with the increasing preferences of stakeholders who support sustainable initiatives.

## 252 1.2 Understanding the evolving landscape

253 The business and sustainability landscape is highly dynamic, with competition increasingly  
254 coming from global and other non-traditional sources. The mainstreaming of sustainability  
255 sees businesses increasingly employing strategic responses to manage their impacts,  
256 identify risks and opportunities and support business resilience.

257 Global trends have historically been shaped by technological disruption, environmental  
258 crises (especially climate change), and societal or geopolitical shifts. The Sustainable  
259 Development Goals (SDGs) were created to tackle the most critical sustainability challenges  
260 globally.<sup>12</sup> The 17 interconnected goals and their associated targets offer useful insights into  
261 the direction of travel for policy and markets over the remaining period to 2030 and even  
262 beyond (Figure 3).

263 SMEs that understand these broader trends, country- and region-specific developments and  
264 expected regulatory interventions can offer useful perspectives that the SME can use to  
265 identify actual or anticipated implications for the business, and to develop appropriate  
266 responses.

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<sup>12</sup> UN Department of Economic and Social Affairs website (2024) [THE 17 GOALS | Sustainable Development](#)

267 **Figure 3: The Sustainable Development Goals**



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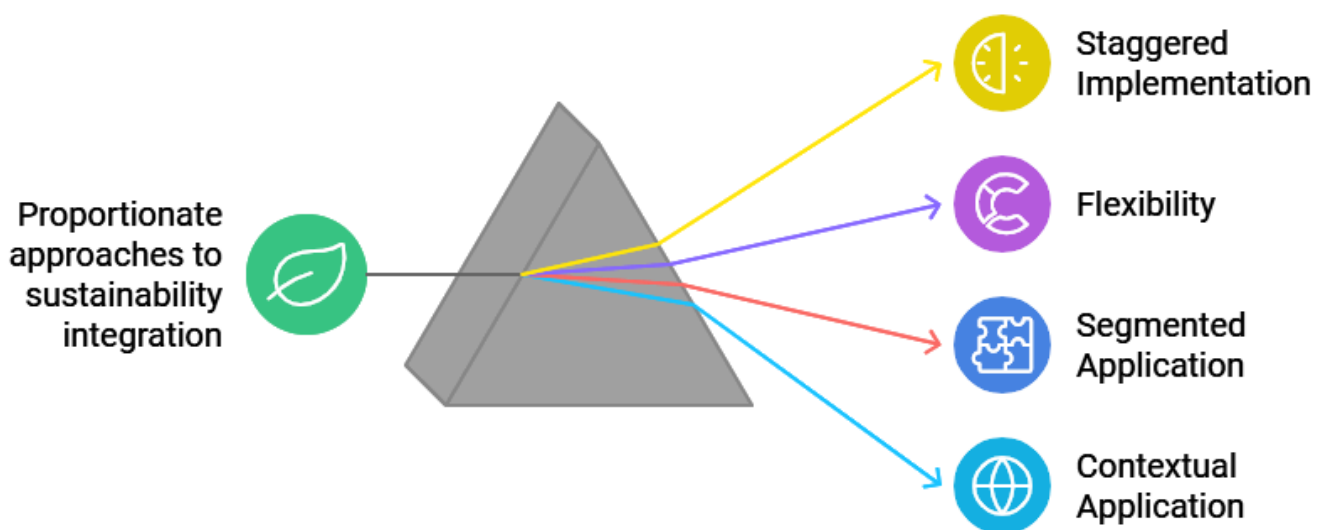
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Source: UN DESA

### 270 1.3 Tailoring sustainability for SMEs: the principle of proportionality

271 As part of taking a structured approach to the integration of sustainable business practices, it  
 272 is further recommended that SMEs investigate a proportionate approach. Applying  
 273 proportionality allows SMEs to proceed in a pragmatic and realistic way without implying any  
 274 limitation in activity. The objective is to reflect the SME's particular circumstances and  
 275 capacity, without diluting the robustness of the actions that it takes. In practice, this can  
 276 involve a number of potential approaches (Figure 4).

277 **Figure 4: Proportionate approaches to SME sustainability integration**



278

279

Source: UN SSE

- 280 ■ **Staggered implementation:** The SME makes incremental changes and increases or  
 281 expands action over time or as resources become available. This approach may for  
 282 example mean that actions are tailored to the SMEs lifecycle stage as an evolutionary  
 283 process, where systems and processes are adapted or expanded along with the  
 284 business's growth. Actions may also be taken incrementally as skills and tools expand -  
 285 for example, an SME can begin monitoring and reporting on Scope 1 emissions while  
 286 building capabilities on Scope 2 and 3 measurement and reporting.
  
- 287 ■ **Flexibility on the extent of implementation:** Approaches are scaled in proportion to  
 288 size and capability. For example, an SME's governance structure may take a more  
 289 simplified approach (also see [section 2.2](#) for more on this).
  
- 290 ■ **Segmented application:** In certain sectors or circumstances, a similar set of guidelines  
 291 or rules may apply to businesses with the same characteristics, such as the industry,  
 292 location of operation etc.<sup>13</sup> For example, a jurisdiction might take a proportional approach  
 293 where all businesses in a particular industry are subject to the same set of rules, with  
 294 different regulations for businesses in a different industry.
  
- 295 ■ **Contextual application:** SMEs can prioritize actions according to the national or  
 296 jurisdictional context, or to respond to the needs of particular stakeholder sets.<sup>14</sup>

297 The success of applying proportionality is in being intentional about how a particular issue is  
 298 being approached. This ensures that the necessary consideration is applied even though the  
 299 action taken may be limited in scope, staggered, flexible, segmented or contextual. It further  
 300 supports alignment among roleplayers and those affected by the actions taken.



## Illustrative Examples

### 301 **Dealing with human rights impacts proportionally**<sup>15</sup>

302 Principle 14 of the UN Guiding Principles on Business and Human Rights (UNGPs), states that “the responsibility  
 303 of business enterprises to respect human rights applies to all enterprises regardless of their size, sector,  
 304 operational context, ownership and structure. Nevertheless, the scale and complexity of the means through  
 305 which enterprises meet that responsibility may vary according to these factors and with the severity of the  
 306 enterprise's adverse human rights impacts.”

307 The basic principle here is that the responsibility applies fully and equally to all businesses. Even SMEs can have  
 308 severe human rights impacts and the response should be commensurate to the impact. However, in the  
 309 Commentary to the principle, provision is made for the fact that SMEs have less capacity for formal processes  
 310 and structures and thus provision is made for different approaches to how the responsibility is met, proportional  
 311 to a range of factors such as size.

### 312 **Proportionality in the Banking Sector**<sup>16</sup>

313 In protecting the systemic stability of financial system regulation, the core principles for banking supervision  
 314 (BCP) and the Basel Framework acknowledge proportionality by making provision for rules and supervision

<sup>13</sup> Bank for International Settlements (July 2022) [High-level considerations on proportionality](#)

315 <sup>14</sup> UN Trade & Development Global Sustainable Finance Observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

<sup>15</sup> National Action Plans on Business and Human Rights website [Small & medium-sized enterprises](#)

<sup>16</sup> Bank for International Settlements (July 2022) [Basel Committee on Banking Supervision: High-level considerations on proportionality](#)

practices to correspond with the systemic importance and risk profile of relevant banks as well as the broader characteristics of a particular financial system, such as applying simpler approaches or tailored regulation.

**Proportionality in governance practices: South Africa's King IV approach<sup>17</sup>**

As with human rights, the principles of good governance are universal and should apply to all organisations irrespective of size, nature and industry in which it operates. However, since organizations (even in the same sector) vary based on size, maturity and nature of the organization and the resources at its disposal, the practices implemented by organisations may differ.

In South Africa, the King IV Report on Corporate Governance expressly caters for the proportional application of governance practices. This means even though it is not expressly stated, practices should be scaled in accordance with certain proportionality considerations specific to the organization:

- Size of turnover and workforce.
- Resources.
- Extent and complexity of activities, including impact on the triple context in which it operates.

Proportional application always remains subject to requirements of the law .

The following examples of possible proportional scaling of practices are noted in the report:

- Recommendations for the establishment of certain functions (covering e.g. finance, risk, technology and information, compliance and internal audit), the organization could appoint a senior employee rather than a team. If warranted and practical, the responsibility could even be part-time, shared among employees or affiliated organizations or outsourced.
- Where it is recommended that the governing body form subcommittees to perform certain functions, a proportional approach could see the governing body carrying out that function itself, or by delegating (without abdicating its accountability) a member of the governing body to prepare submissions on relevant issues for consideration by the full governing body.
- Formal policies can be developed incrementally by commencing with the establishment of basic principles, criteria and processes and evolving the document as the approach matures.

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<sup>17</sup> Institute of Directors South Africa (2016) King IV Report - Web Version



## Helpful Tip

### Applying proportionality throughout the lifecycle of an SME

In its *SME Governance Guidebook*,<sup>18</sup> the International Finance Corporation suggests that successful SMEs evolve through four distinct stages of growth, from Start-Up, through Active Growth and Organizational Development to Business Expansion. In each stage, the business may be presented with new challenges and opportunities, and may reach a definitive point where it is ready to transition. As the business progresses, its approach to governance will also evolve. Owners need to adapt the governance policies, practices, and structures of the business progressively as the business matures. This progressive or staggered approach can be considered an example of a proportional approach.

This example of proportionality in evolving the governance approach with the business growth, can also find application in relation to other aspects of the business. As the business evolves, strategic processes, risk management and internal control, disclosure and transparency may need to evolve and expand as well.

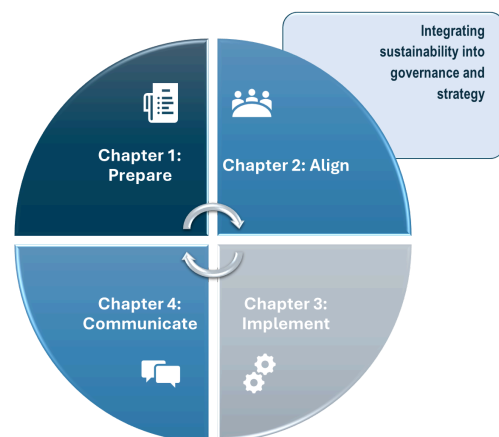
Typically the focus on sustainability becomes more pronounced as the business progresses through the stages - for example, it may expand to enter the supply chain of a larger enterprise, which brings with it larger pressures to proactively address economic, social and environmental risks and impacts, as well as being more transparent about progress. Understanding in which stage of evolution the SME business is, may assist it in understanding the extent to which it needs to respond to these focus areas, and may position the proportionate or incremental nature in which sustainability imperatives can be integrated.

## Chapter 2. Align

This chapter aims to help SMEs align their strategy and governance processes approach to the integration of sustainable business practices.

### Key takeaways:

- ☐ Incorporate sustainability into strategy development.
- ☐ Ensure that the approach to governance positions the business to provide appropriate oversight and accountability for sustainability integration.



<sup>18</sup> International Finance Corporation (2019) *SME GOVERNANCE GUIDEBOOK*

## 371 2.1 Sustainable strategy

372 As with any business, and whether this is formalized or not, an SME may have a vision and  
373 mission setting out its purpose and what it aims to achieve with the business. Strategy sets  
374 out the steps to be taken to realize the goals of the business and how to position and  
375 differentiate it. Traditionally these steps may include defining the business model and goals,  
376 setting action plans to achieve goals, developing policies that outline expected values and  
377 behaviors, and identifying the resources that are required to execute action plans. Strategic  
378 planning processes might take account of external factors via scans of the operating  
379 landscape, with identification of relevant trends and developments, and the formulation of  
380 appropriate responses. When developing new strategies or evolving existing plans,  
381 businesses may also evaluate current operations and practices to identify gaps that need to  
382 be filled or to incorporate new opportunities and growth strategies.

383 The business culture of SMEs is often less formal, lacking the typical approaches to strategy  
384 development followed by larger enterprises. Given a tendency to focus on matters that are  
385 directly related to business, the opportunity to consider the strategic value of sustainability  
386 integration may be lost. However, employing a sustainability lens can help businesses  
387 recognize new and potentially more effective strategies to build a competitive advantage and  
388 achieve resilience.<sup>19</sup> The broad scope of potentially relevant sustainability matters brings the  
389 promise of a number of possibilities to evolve the business's competencies.

390 Instead of creating a separate sustainability strategy, a more effective approach is to  
391 integrate sustainability into the overall business strategy from the beginning, using it to  
392 enhance and advance the business objectives.

393 A number of steps are recommended for SMEs to pursue a sustainable approach to  
394 strategy. This includes reviewing the extent to which sustainability is incorporated into vision,  
395 values and culture of the organization, assessing the operational landscape to identify  
396 relevant economic, social and environmental risks and impacts and understanding changing  
397 market conditions, and considering the extent to which existing plans incorporate  
398 management of sustainability impacts and risks. Tools are available to assist SMEs in this  
399 regard. It may also be useful for exchanges to align with global frameworks or international  
400 standards. This alignment will make it easier for SMEs to enter global supply chains and  
401 align with international sustainability principles, frameworks and standards.

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<sup>19</sup> Loucks, Elizabeth & Martens, Martin & Cho, Charles (2010) Sustainability Accounting, Management and Policy Journal.Vol. 1 No. 2,  
402 pages 178-200. [Engaging small- and medium-sized businesses in sustainability](#)



## Tools and Resources

### ❖ Assisting SMEs to kick-start their readiness for sustainability integration

#### **The IFC's Sustainability Assessment and Improvement Tool<sup>20</sup>**

The IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies includes an Excel-based instrument that offers a structured approach to assist SMEs to examine whether their existing policies and practices are sufficiently aligned with sustainability and to tailor priority actions to their business model and strategy.

For example, an overarching theme asks whether sustainability is embedded in vision, values, and business conduct policies. The tool can then be operationalized by the SME as follows:

- Detailed recommended practices to follow, for example asking whether the company's approach to sustainability, including environmental and social performance, is articulated within the context of its vision and values.
- Further explanation and guidance is provided on each recommended practice, to give context.
- The SME can populate the excel spreadsheet to note the status of implementation of a practice, what the priority level is and to identify action steps to be taken.

The tool provides SMEs with a practical method to assess where it is in terms of integrating sustainability into strategy through aspects like vision, values and culture, and beyond (including decision-making and strategic leadership, human capital, risk management etc.). It further enables the SME to set action plans for progress and monitor status updates.

#### **The UOB Sustainability Compass<sup>21</sup>**

The United Overseas Bank (UOB) Sustainability Compass provides a step-by-step guide for SMEs to assess their readiness for sustainability integration. It offers an online tool that generates a customized report based on the sector and sustainability maturity stage of the business. The report also provides next steps to chart the sustainability journey, guiding the SME through a roadmap that identifies the different phases of going sustainable. Following the launch in Singapore, businesses in Malaysia, Thailand and Indonesia now have access to the tool, with an intended extensive ASEAN footprint.

#### **The Istanbul Chamber of Industry Sectoral Roadmaps<sup>22</sup>**

The Istanbul Chamber of Industry (ICI) provides road maps for 10 different sectors, presenting SMEs with sector-specific guiding priorities and key performance indicators for future sustainability studies.

### ❖ Resources to consult in identifying sustainability topics

Various resources capture a broad range of sustainability themes and specific topics of which organizations need to be aware, which may assist SMEs to identify relevant topics. These include (but are not limited to) the following:

<sup>20</sup> International Finance Corporation (2023) [The Sustainability Assessment and Improvement Tool for Midsize Growth Companies](#)

<sup>21</sup> UOB (2022) [UOB Sustainability Compass](#)

<sup>22</sup> Istanbul Chamber of Industry website [ICI - Sectoral Road Map](#)



- Broad principle-based frameworks such as the UN SDGs,<sup>23</sup> UN Global Compact,<sup>24</sup> and the OECD Guidelines for Multinational Enterprises.<sup>25</sup>
- Reporting frameworks such as the GRI Standards,<sup>26</sup> the IFRS Sustainability Disclosure Standards<sup>27</sup> the European Sustainability Reporting Standards (ESRS).<sup>28</sup> While reporting is ideally an outcome rather than a starting point, consulting reporting frameworks may be useful when identifying applicable material topics.
- Topic-specific frameworks such as the CDP,<sup>29</sup> the recommendations of the Task Force on Nature-related Financial Disclosures (TNFD), the Paris Agreement<sup>30</sup> and the UN Guiding Principles for Business and Human Rights.<sup>31</sup>
- Industry-specific frameworks such as the SASB Standards.<sup>32</sup>
- National frameworks for sustainable development.
- Benchmarks such as Future-Fit Business<sup>33</sup> and the Natural Capital Protocol.<sup>34</sup>

## 403 2.2 Governance

404 Good governance practices are a means of ensuring that leadership and oversight is  
 405 strategic, adding value and providing continuity and accountability.<sup>35</sup> Good governance is  
 406 also a cornerstone in the Environmental (E) and Social (S) aspects of the ESG  
 407 (Environmental, Social, and Governance) triangle. By embedding governance practices that  
 408 are tailored to their size and growth stage, SMEs can drive both operational success and  
 409 broader ESG outcomes, enabling them to meet stakeholder expectations and contribute to  
 410 sustainable development.

411 Given the diverse nature of SMEs, governance principles in particular lend themselves to a  
 412 proportionate approach (as discussed in Chapter 1). Merely limiting the application of  
 413 governance practices developed for larger companies is not fit for SMEs due to the unique  
 414 challenges and resource constraints these businesses face. To address this, a more tailored  
 415 approach to governance is needed, one that evolves with the business. The IFC  
 416 recommends that SME governance be allowed to grow organically through fit for purpose  
 417 approaches that adapt as the business evolves through growth stages.<sup>36</sup>

418 A typical **governance structure** involves three levels of authority or role players: owners,  
 419 board members and management (Figure 5). In the case of an SME, at given points in time,  
 420 these three role players may overlap or even be the same person or persons. SMEs may not

<sup>23</sup> [Sustainable Development Goals](#)

<sup>24</sup> [UN Global Compact](#)

<sup>25</sup> [MNE Guidelines - Organisation for Economic Co-operation and Development](#)

<sup>26</sup> [GRI - Standards](#)

<sup>27</sup> [IFRS - General Sustainability-related Disclosures](#)

<sup>28</sup> [Delegated regulation - EU - 2023/2772 - EN - EUR-Lex](#)

<sup>29</sup> [CDP](#)

<sup>30</sup> [The Paris Agreement | United Nations](#)

<sup>31</sup> [UN Guiding Principles](#)

<sup>32</sup> [SASB](#)

<sup>33</sup> [Future-Fit Business](#)

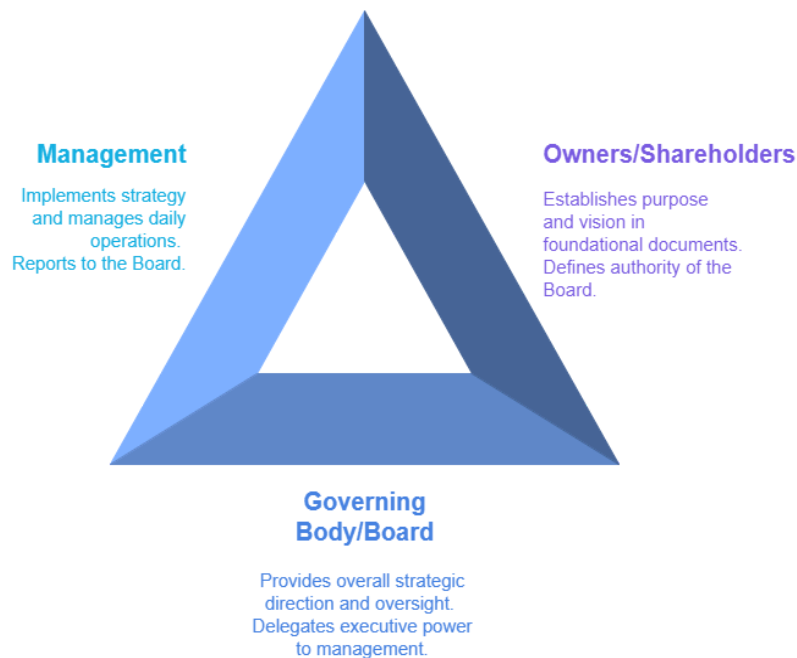
<sup>34</sup> [Natural Capital Protocol](#)

<sup>35</sup> IFC Corporate Governance Knowledge Publication (2019) [Governance-for-SME-Sustainability-and-Growth](#)

<sup>36</sup> IFC Corporate Governance Knowledge Publication (2019) [Governance-for-SME-Sustainability-and-Growth](#)

even use the specific terminology to describe these roles. However, it is still of value to distinguish between the roles that they perform and the authority that they have to ensure that relationships between the role players remain appropriate, decision-making can be effective, and accountability and oversight be executed responsibly. Ensuring that the roles and respective responsibilities are clearly outlined and ideally ring-fenced (even where the same person fills a position), facilitates the continuation of good governance practices as the organization grows through various stages of its lifecycle.

**Figure 5: Roleplayers in the context of SME governance**



Source: IFC<sup>37</sup>

An SME's approach to **Board composition** and related aspects such as subcommittees and remuneration, will be determined according to the resources and characteristics of the business.<sup>38</sup> For example, while larger organizations typically ensures a balance of power on the Board through a majority of non-executive directors who bring a degree of independence and objectivity, independence might be more difficult to achieve in SMEs that are managed by small numbers of staff or are family owned or run, implying close relationships between owners, directors and managers.



### Helpful Tip

#### Leveraging Board composition to ensure independence and tap into expertise

To ensure objectivity and balance in decision-making it is recommended that particularly non-owner managed SMEs consider to what extent they may be able to bring independence into Board decisions, whether through appointing an independent Board member or Chairperson. An owner-managed SME may not be able to do this,

<sup>37</sup> International Finance Corporation (2019) SME GOVERNANCE GUIDEBOOK

<sup>38</sup> International Finance Corporation (2019) SME GOVERNANCE GUIDEBOOK

but to ensure that decisions can stand the test of accountability, it may be advisable to consider how to incorporate advice from outside the day-to-day decision-making.<sup>39</sup>

Appointing the full complement of typical Board committees may not be required or practical in smaller or owner-managed SMEs,<sup>40</sup> but for more complex businesses they can help to spread the workload of dealing with matters such as risk, remuneration, nomination, audit and sustainability. Advisory committees could be formed on an ad hoc basis to deal with key aspects. This will also allow SMEs to tap into important expertise that they may otherwise lack.

Governance practices are not static, and particularly in the case of SMEs will evolve with the business. Identifying the most appropriate structures and approaches at a particular stage of the business, to ensure clear division of authority, transparent and accountable decision-making, is critical for the organization to meet challenges and build resilience. Positioning a strong approach to governance can be a very useful catalyst for the integration of sustainability considerations into the business.

438



## Tools and Resources

### 439 The IFC's SME Governance Guidebook

440 The IFC's SME Governance Guidebook<sup>41</sup> provides practical guidance on how SMEs can tailor governance to be  
441 fit for purpose at the various stages of the business lifecycle, as a means of strengthening their businesses over  
442 the long term. The Guidebook offers an SME Governance Framework that can be tailored for application, and  
443 provides a discussion of Key Governance Topics and Leading Practices to assist SMEs identify which aspects to  
444 implement. It specifically notes that implementing good governance practices can help SMEs address a number  
445 of challenges, as follows:

- 446 ■ "Effective policies, structures, and processes help reduce overreliance on a few 'key persons'.
- 447 ■ Companies with sound governance have better access to finance, as they appear more attractive and less  
448 risky for investors and banks.
- 449 ■ Family-run businesses increase the chances of long-term survival through proactive succession planning  
450 and managing the family-versus-business relationship.
- 451 ■ Prudent governance reduces risks and improves the management of conflicts among various shareholders  
452 and stakeholders.
- 453 ■ Well-structured management bodies (and later, boards of directors) provide critical stewardship, strategic  
454 direction, and business connections for sustainable growth.
- 455 ■ Good governance is a common regulatory prerequisite for an IPO (initial public offering).
- 456 ■ Prudent internal controls help companies enhance risk management and build greater resistance to fraud,  
457 theft, and mismanagement.

<sup>39</sup> Institute of Directors (2016) [King IV Part 6 Supplement for Small and Medium Enterprises](#)

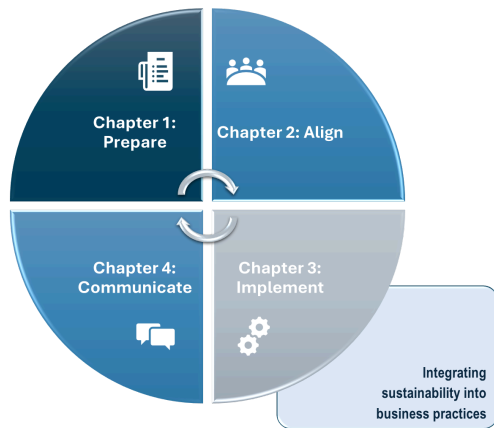
458 <sup>40</sup> Except where this is prescribed, for example In Spain, having an audit committee is mandatory certain kind of listed SMEs - See [Official Bulletin No 293](#) (Source in Spanish)

<sup>41</sup> International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

Good governance practices help the founders recover some freedom in their lives. They can control and direct the business without having to be directly involved in all operational decisions. Well-governed companies attract and retain higher-quality staff that the founders can rely on.”

## Chapter 3. Implement

This chapter aims to provide insights for SMEs to operationalize sustainability management through risk management as well as the key functions that are needed for day-to-day management.



### Key takeaways:

- ☐ Extend risk management processes to sustainability risk.
- ☐ Identify functional roles for implementation and educate employees.
- ☐ Adopt efficient and sustainable management practices across all aspects of business operations, such as reducing waste, conserving energy, and using sustainable materials.

## 3.1 Risk Management

All organizations, regardless of size, sector or capacity, are naturally alert to the imperative of managing risk. Risk governance, management and related internal controls often cover broad risk themes such as financial risk, operational risk, compliance and legal risk. Economic, social and environmental threats may already be implicit in some of these risk categories, depending on the nature of the business. It is necessary to drill deeper into what these risks entail as well as to identify and manage any further sustainability risks. Leveraging sustainability-integrated risk management can be of particular value to SMEs to build resilience and demonstrate responsiveness and adaptability, which may attract investors and enhance access to capital.<sup>42</sup> Further, as good governance practices include oversight of risk management by the top levels of the organization, sustainability risk awareness should be built across all levels of the governance structure.

It is not necessary for SMEs to employ complex enterprise risk identification systems and processes to list their main sustainability risks. Beyond risks that are implicit in broader risk categories, there are resources to support the process of sustainability risk identification. Reviewing these resources and filtering to identify those that may be relevant and potentially applicable to the SME and its context, will already be a significant step forward and enable the SME to assess the potential impact and develop plans to mitigate negative outcomes for the business. This exercise can even be conducted in conjunction with the landscape assessment during strategy development.

<sup>42</sup> Accountancy Europe (November 2023) [5 reasons why sustainability matters for SMEs](#)

In addition to identifying environmental and social risk from an operational perspective, **stakeholder pressures** and **value chain considerations** incentivize a deeper focus on risk. For example, SMEs that are progressing strongly along a growth path towards becoming part of a larger corporation's supply chain, could be under pressure to proactively address environmental and social sustainability risks. The nature of risk will be dependent on the nature of the industry sector in which the SME operates and that of the supply chain that it is working to enter. Due to the matters that large multinationals are exposed to, the SME can be expected to manage human rights-related risks such as forced or child labour and worker safety, product-related risks and significant environmental impacts on biodiversity and the ecosystem.<sup>43</sup>

**Balancing proportionality with materiality** can be pivotal in ensuring that the SME's approach matches the size and complexity of the organization. Materiality in sustainability refers to the most important impacts, risks and opportunities that an organization applies its mind to in terms of strategy, management and disclosure. The prevailing view of double materiality considers an organization's most significant economic, environmental and social impacts (for relevance to a broad stakeholder body), or to risks and opportunities that may substantively affect the prospects of SMEs and particularly influence the decisions of investors and providers of financial capital. SMEs can focus their efforts on areas of their business that pose the most significant risk. With this targeted approach, smaller firms can minimize unnecessary expenses and enhance operational efficiency.



## Tools and Resources

### ❖ Leverage available resources to help identify sustainability risks:

The World Economic Forum releases the *Global Risks Report*<sup>44</sup> annually, exploring some of the most severe risks that may emerge within ten years. The risks are categorized across economic, environmental, geopolitical, societal and technological issues. SMEs can use the report to identify overarching sustainability risks and to then drill down into the issues covered in each of these risks to determine relevance for the SME.

The following environmental risks feature in the 2024 report: Extreme weather events, critical change to Earth systems, biodiversity loss and ecosystem collapse, natural resource shortages and pollution. Key societal risks include societal polarization, lack of economic opportunity and involuntary migration.

### ❖ COSO guidance for ESG risk identification

COSO's *Enterprise Risk Management – Applying Enterprise Risk Management to Environmental, Social and Governance (ESG) Risks* guide<sup>45</sup> aims to assist practitioners in identifying and managing sustainability-related risks. The guidance acknowledges that SMEs may lack sufficient resources to apply a comprehensive risk management system similar to what large corporations are capable of doing. A common-sense approach is recommended, using available resources efficiently to ensure that risk awareness and continual monitoring can be optimized.

<sup>43</sup> International Finance Corporation (2019) *SME GOVERNANCE GUIDEBOOK*

<sup>44</sup> World Economic Forum (January 2024) *Global Risks Report 2024*

<sup>45</sup> COSO (2018) *Enterprise Risk Management*

The three steps that the guide proposes when dealing with ESG risk entail the identification of risks, assessment and prioritization of risks, and development of risk responses. The guide also discusses a number of practical steps that SMEs can tailor to their own circumstances. For example, taking an incremental approach by reviewing the existing risk profile of the organization to determine which ESG-related risks have or have not been identified. Another approach is to involve subject-matter experts to identify and define the impact of ESG-related risks that may impact the organization's strategic and operational plans.

❖ **Sustainability Reporting Standards provide guidance on identifying material industry-based sustainability impacts, risks and opportunities**

Sustainability reporting frameworks and standards make provision for the fact that sustainability imperatives may vary in nature and intensity across different sectors and industries. SMEs can leverage these to help identify impacts, risks and opportunities that may be relevant to their business but also to anticipate which issues may be prioritized across the value chain that they form part of.

For example, the following can be used in conjunction to provide a comprehensive view of most significant impacts as well as material risks and opportunities:

- The GRI Standards, which reflect stakeholder expectations for sustainability reporting, are expanding their Standards with standards for 40 sectors, to help businesses identify the most significant impacts for a particular sector.<sup>46</sup> Sector Standards describe the sustainability context for a sector, outline the likely material topics based on the sector's most significant impacts, and list disclosures that are relevant for the sector to report on. Sector Standards have been published for Oil and Gas (GRI 11), Coal (GRI 12), Agriculture, Aquaculture and Fishing (GRI 13), as well as Mining (GRI 14). Standards for Financial Services (Banking, Insurance and Capital Markets) and Textiles and Apparel are under development.
- The SASB Standards<sup>47</sup> focus on disclosure of sustainability information to investors. Covering 77 industries, it identifies the sustainability-related risks and opportunities most likely to affect cash flows, access to finance and cost of capital over the short, medium or long term and the related topics and metrics that should be disclosed to. The SASB Materiality Finder is a useful tool to look up and compare industries and related topics.<sup>48</sup>

Other reporting frameworks may also provide or develop industry-based standards. It is therefore important that SMEs remain informed about global, regional or national developments in this regard to the extent that it may be relevant.

516



### Helpful Tip

#### 517 Responding to Climate Risk as an SME

518 Climate change is considered to be a pervasive risk, affecting businesses of all types and sizes, including SMEs.

519 This means SMEs also need to consider their vulnerability and to understand which mitigation and adaptation

520 actions are necessary to build resilience, protect their assets and ensure business continuity. Research shows

<sup>46</sup> Global Reporting Initiative website (2024) [GRI - Sector Program](#)

<sup>47</sup> IFRS Foundation website (2024) [SASB Standards overview](#)

<sup>48</sup> IFRS Foundation website (2024) [Exploring materiality - SASB](#)



that while there are a number of proactive SMEs and “ecopreneurs”, the vast majority of SMEs are considered to be reactive and may only react in response to direct impact from aspects such as regulatory interventions, stakeholder demands or major incidents.<sup>49</sup>

SMEs may be daunted by the cost and effort of transitioning, but there may also be opportunities to innovate, introduce efficiencies and gain consumer trust through introducing environmentally sustainable practices. Early preparation and action can position the business for greater resilience and longevity.

Scenario planning is an effective approach to risk identification and mitigation planning, and has evolved particularly in managing climate risk through the use of science-based information. Essentially it enables the organization to consider and analyze a range of risks and opportunities that different impacts of climate change may expose the business to, and to plan responses to different scenarios. This can include regulatory impacts (e.g. if policy responses to the climate crisis impact cost of ongoing operations), physical impacts (e.g. extreme weather damage to an SME’s critical facilities) and financial impacts (e.g. how investors, banks and insurance companies assess climate risk in the context of an SMEs operations). Few SMEs have resources to conduct sophisticated climate scenarios. However, tools are available (for example from the Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA)). SMEs can use these as a starting point for a step-by-step approach to climate scenario analysis.



## Illustrative Example

### Climate Scenario Planning for SMEs

The Institute of Chartered Accountants in England and Wales (ICAEW) suggests that SMEs can realize a range of benefits from climate scenario planning, such as helping the businesses to understand its resilience to different kinds of climate impacts, and to manage climate-related risks and opportunities.

It proposes the following potential steps for a customized SME approach:<sup>50</sup>

- Leverage existing resources. Utilizing climate scenarios that have already been developed, such as those from the IPCC, IEA, or models from the Network for Greening the Financial System (NGFS), can save time and ensure the analysis aligns with current scientific understanding.
- Consider using a variety of scenarios (e.g., different warming levels) to capture a broad range of possible futures.
- After selecting climate scenarios, it is often more practical initially to focus on qualitative narratives (such as shifts in customer behaviour). Over time, quantitative scenarios may become more feasible as the analysis progresses. Quantification may be required by current or upcoming regulations.
- There is no one-size-fits-all universal approach to climate scenarios. The effects of climate change will differ depending on numerous factors: the business model and industry, the location of operations, the assets of the business and the nature of its markets and customers.
- Determine appropriate responses and adjust the tactics and strategy according to insights gained from the analysis of risks and opportunities.
- Ensure proper governance by incorporating climate scenario analysis into strategic planning and risk management processes, and assign oversight as appropriate.

<sup>49</sup> Accountancy Europe (November 2023) [5 reasons why sustainability matters for SMEs](#)

<sup>50</sup> ICAEW (September 2023) [ESG for SMEs: step-by-step climate scenario analysis](#)



## 558 3.2 Managing Sustainability: Key Functions

559 Processes to embed sustainability benefit most when dedicated responsibility and  
560 accountability is allocated. Given that SMEs typically don't have large numbers of  
561 employees, this may be challenging. Depending on the availability of resources, the SME  
562 can either allocate a dedicated employee to focus on sustainability or add sustainability  
563 elements to existing staff responsibilities, or combine both approaches.

564 Generally, SME organizational lines of authority are informal, with structures being  
565 dependent on factors such as staff numbers, resources, the stage of business growth and  
566 business model. For smaller SMEs particularly, business owners are accountable and  
567 responsible for strategic control and can also take on the oversight of sustainability issues  
568 with delegation to other functions focusing on operational duties.

569 When starting out, sustainability functions will likely focus mostly on identifying relevant  
570 sustainability impacts and understanding regulatory requirements and data requests. The  
571 range of sustainability topics is very broad, therefore it makes practical sense to break action  
572 down into particular areas of focus.

573 Given the wide scope of sustainability topics, there is no single ideal qualification or  
574 profession that is best suited to the role. Sustainability officers come from a diverse range of  
575 professional backgrounds, with typical areas of qualification found among sustainability  
576 practitioners covering environmental science, engineering, political and social sciences, law,  
577 economics or finance. Certain competencies can prove valuable in successfully executing  
578 the functions performed by a sustainability officer. These include strategic thinking and  
579 planning, stakeholder relationship management, project management, research and  
580 analytical skills, verbal and communication skills. Technical skills in more complex aspects  
581 could be built up over time, or brought in via external experts.



### Tools and Resources

#### 582 UN Global Compact Roadmap for Integrated Sustainability

583 The UN Global Compact's *Roadmap for Integrated Sustainability*<sup>51</sup> notes that, as entities mature in their efforts to  
584 embed sustainability, resourcing demands can also shift. When starting out, the Roadmap recommends that it is  
585 useful to explore two questions to consider which functions to prioritize for sustainability integration:

- 586 ■ What functions are necessary to drive progress toward current sustainability goals?
- 587 ■ What functions are perceived to be particularly influential in the company's value creation?

## 588 3.3 Efficient Implementation and Management

589 Implementation should be guided by management systems that capture the policies,  
590 processes and procedures to address operational priorities. This typically involves the  
591 following actions:

<sup>51</sup> UN Global Compact (2015) [Roadmap for Integrated Sustainability](#)

- 592 ■ Reviewing existing systems, procedures, job descriptions and metrics to identify whether  
593 changes or new approaches are required to align with sustainability policies and goals.
- 594 ■ Training relevant staff to equip them with the policies and goals.
- 595 ■ Putting processes in place to monitor and evaluate implementation and progress. This  
596 includes the development of targets, objectives and related timelines as well as the  
597 identification of metrics and indicators to measure progress and / or performance.
- 598 ■ Implement operational sustainability initiatives. Start with the basics by implementing  
599 environmentally friendly practices across all aspects of the business, such as reducing  
600 waste, conserving energy, and using sustainable materials.

601 Effective implementation is underpinned by effective cross-functional collaboration. The  
602 leadership of the organization (such as the owner and/or CEO, Board of directors and  
603 management) plays a critical integration and governance role, focusing on aspects such as  
604 setting the vision, supporting and clearly communicating the business case as compelling,  
605 reinforcing the priority of integration, setting goals and overseeing implementation and  
606 modeling desired behaviors.<sup>52</sup>



### Helpful Tip

#### 607 Practical suggestions for implementing sustainability at operational level

608 The Chartered Accountant's *Sustainability Roadmap*<sup>53</sup> issued in 2022 by Chartered Accountants Worldwide  
609 provides a series of signposts across sustainability integration topics. They propose the following elements be  
610 considered when embedding a sustainability mindset throughout operations:

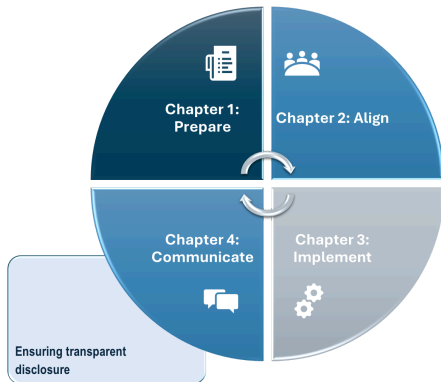
- 611 ■ Implementing a combined top-down, bottom-up approach throughout the organization can incentivise people  
612 to achieve sustainability goals.
- 613 ■ Clearly define roles and responsibilities for administrative, management and supervisory aspects of  
614 sustainability management and ensure proper oversight of their management. Establish whether ESG  
615 responsibilities have been assigned to management or committees, and if not, develop the necessary  
616 policies and systems.
- 617 ■ Provide training and education to ensure all team members understand what is expected of them and are  
618 committed to do their part in delivering on the sustainability strategy.
- 619 ■ Conduct a skills analysis to identify existing sustainability-related skills in the organization and any skills /  
620 knowledge gaps. Develop plans to fill the gaps, whether through education, recruitment or outsourcing.
- 621 ■ Ensure that there is a budget to finance and support the sustainability integration process, for example to  
622 onboard dedicated resources, set up sustainability reporting systems and processes, or appoint external  
623 consultants .

<sup>52</sup> UN Global Compact (2015) *Roadmap for Integrated Sustainability*

<sup>53</sup> Chartered Accountants Worldwide (2022) *The Chartered Accountant's Sustainability Roadmap*

## Chapter 4. Communicate

This chapter provides insight into the importance of transparency and growing pressure on SMEs to report on their integration of sustainability.



### Key takeaways:

- ☐ Measure and report. Establish metrics to track sustainability performance and regularly report on progress.
- ☐ Communicate effectively and transparently by leveraging data management and balanced disclosures.

### 4.1 The importance of transparency

Transparency is a cornerstone of good governance and sustainable business practices. It enhances credibility with stakeholders and demonstrates a commitment to sustainability. The modern information age and pervasive nature of media and social media means that businesses can no longer conceal their actions.

Continuing technological disruption has led to the generation of immeasurable amounts of data, coupled with increasingly sophisticated analytical tools. This enables stakeholders to obtain deep insights into businesses without ever engaging the organization directly.

Given this context, it is in the best interests of all businesses to proactively present the narrative that it wishes to share with its stakeholders. This is achieved through effective and transparent public disclosure and reporting about sustainability.

### 4.2 Sustainability Reporting for SMEs

Similar to larger enterprises, SMEs are facing escalating sustainability reporting demands and requirements. These can originate from regulators, providers of financial capital, supply chain partners, customers etc. The global sustainability reporting landscape, which has for at least two decades been characterized by a proliferation of standards and frameworks, has undergone a significant shift in the last few years towards convergence, and there is an increasing focus on voluntary standards becoming mandatory.

The expansion of reporting standards has a clear ripple effect on SMEs in two ways:<sup>54</sup>

- If they follow a similar trajectory, the development of accounting standards suggests that sustainability reporting standards will be developed for SMEs;

<sup>54</sup> UN Trade & Development Global Sustainable Finance Observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

657 ■ The presence of SMEs in the supply chain of larger entities who are required to comply  
658 with the standards, extends the reach of reporting expectations to those SMEs.

659 SMEs therefore require support to navigate and fulfill these evolving requirements.

660 Sustainability disclosure should be credible and as complete as possible. Basing it on  
661 established models and being guided by the principles of materiality and proportionality is a  
662 good starting point and can play a relevant role in decreasing the information asymmetry  
663 problem that exists between large and smaller organizations.<sup>55</sup>

664 SME reporting guidance or standards should take into account any issues of national or  
665 regional importance, as well as the national development context and the needs, capacities,  
666 and resource constraints of the SMEs in question. SMEs could take a building block  
667 approach to applying different standards in incremental fashion, over a timeline that gives  
668 SMEs the opportunity to plan and scale up their reporting capacities.<sup>56</sup> Materiality, as a  
669 fundamental concept for all sustainability reporting, can help SMEs define clear rules on how  
670 to prioritize and stagger their actions and accommodate limited resources, while making  
671 tangible progress. SMEs should focus on those issues that are material to their business and  
672 avoid attempting to prioritize too many issues and failing to gain real traction on any of them.  
673 Focusing on a few selected material issues that are linked to strategic objectives will support  
674 deeper integration and enable more efficient resourcing.



## Tools and Resources

### ❖ How do global sustainability frameworks cater for SMEs?

#### **International Sustainability Standards Board (ISSB)**

The ISSB was established in 2021 following consolidation in a range of voluntary investor-focused sustainability standards, namely the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the Climate Disclosure Standards Board (CDSB) Framework, the Sustainability Accounting Standards Board (SASB) Standards, and the Integrated Reporting Framework. In 2023, the ISSB issued its International Financial Reporting Standards (IFRS) S1 on general sustainability-related disclosures, and IFRS S2 on climate-related disclosures. These standards aim to promote a uniform approach to global sustainability reporting by providing investors with reliable and consistent information on sustainability issues and their financial impacts on reporting entities.

The ISSB Standards enables proportionality and staggered implementation by requiring entities to only report on the sustainability-related risks and opportunities that are considered to be material to that specific entity. They further offer transition relief allowing companies to start reporting against the Climate-related Disclosures Standard and the climate components of the General Sustainability-related Disclosures Standard in the first year of application, along with exemptions for specific sectors on Scope 3 emissions disclosure in the first year.<sup>57</sup>

<sup>55</sup> UN Trade & Development (2013) [Accounting and Financial Reporting by Small and Medium-sized Enterprises: Trends and Prospects](#)

<sup>56</sup> UN Trade & Development Global sustainable finance observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A](#)

675 [Holistic Approach](#)

<sup>57</sup> Sage (November 2023) [Path for growth: Making sustainability reporting work for SMEs](#)

### Global Reporting Initiative (GRI)

The GRI Standards have been established for over two decades and are used across the world for corporate reporting on sustainability impacts. It is made up of a modular set of standards across three series: the Universal Standards which cover aspects such as general disclosures, materiality, management approach, Topic Standards across economic, environmental and social topics, and Sector Standards.

The Standards enable flexibility in allowing reporting organizations to provide a permitted set of reasons for omission over most commitments. The GRI has also run a number of programmes and initiatives to support SMEs, such as the Corporate Sustainability and Reporting for Competitive Business programme which was run in six developing nations to achieve three goals: developing SME capacity for sustainability reporting, enabling a conducive reporting environment and fostering demand for sustainability data.<sup>58</sup>

### CSRD and ESRS

The EU's Corporate Sustainability Reporting Directive (CSRD) has spurred probably the biggest global shift towards mandatory sustainability reporting for companies when it mandated the new ESRS. In January 2024, the EU released the European Sustainability Reporting Standards (ESRS), containing comprehensive sustainability disclosure standards for large companies. These standards aim to cover all relevant environmental, social, and governance issues, providing a comprehensive view of companies' sustainability performance. The focus is on double materiality, encompassing both financially material aspects and impact-related material matters.

As noted by the UN Trade & Development Global Sustainable Finance Observatory,<sup>59</sup> the European Financial Reporting Advisory Group (in advising the European Commission) has proposed a proportional approach be taken to widening the scope of the ESRS to SMEs. Draft standards provide that listed SMEs should be expected to report according to standards that are proportional to the complexity of their activities, capacities, and resources. A transitional period of two years after the standards come into effect implies that listed SMEs will need to start reporting by 2026. Listed SMEs will be able to opt out of reporting by providing sufficient explanation as to why sustainability information cannot be provided. Non-listed SMEs may voluntarily choose to use the standards on a proportional basis.

## ❖ **Other initiatives to promote and support SME Sustainability Reporting**

### CDP<sup>60</sup>

In April 2024, CDP released a dedicated CDP SME corporate questionnaire. It builds on CDP's collaboration with the SME Climate Hub (resulting in an SME Climate Disclosure Framework) and a pilot process for SMEs run during 2023. The new questionnaire is aligned to the CDP full corporate questionnaire, but with fewer data points, simplified question formats and enhanced guidance to support SME reporting.

### Project Savannah<sup>61</sup>

Launched in June 2023 as a collaborative effort between the UN Development Programme, the Monetary Authority of Singapore (MAS), and the Global Legal Entity Identifier Foundation (GLEIF), Project Savannah aims to pilot a framework to aid Micro, Small, and Medium Sized Enterprises (MSMEs) in their

<sup>58</sup> Global Reporting Initiative GRI - *Corporate Sustainability and Reporting for Competitive Business*

<sup>59</sup> UN Trade & Development GSFO (June 2024) *Shaping the Future of SME Sustainability Disclosure: A Holistic Approach*

<sup>60</sup> UNDP (March 2024) White Paper on Project Savannah: Common ESG Metrics for Generating Digital Sustainability Credentials for MSMEs | United Nations Development Programme

<sup>61</sup> UNDP (March 2024) *White Paper on Project Savannah: Common ESG Metrics for Generating Digital Sustainability Credentials for MSMEs* | United Nations Development Programme

sustainability reporting journey. It aims to establish a set of basic ESG metrics for common adoption by MSMEs. Harnessing technology and verified data (where available) it aims to simplify data collection, storage and verification for SMEs, thus facilitating higher quality reporting.

678



## Illustrative Example

### 679 Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group create tools to 680 promote SME Sustainability Reporting

681 Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group was established in May 2020.  
682 Co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission, the Steering  
683 Group represents an alliance of the financial regulators, Hong Kong Exchanges and Clearing Limited, and  
684 Government bureaux working together for a sustainable future. The Steering Group was created to coordinate  
685 the management of climate and environmental risks to the financial sector, accelerate the growth of green and  
686 sustainable finance in Hong Kong and support the Government's climate strategies.

687 In February 2024, the Steering Group and the Hong Kong University of Science and Technology launched two  
688 greenhouse gas emissions calculation and estimation tools to facilitate sustainability reporting by corporates and  
689 financial institutions in Hong Kong. Available to the public for free, the calculation tool enables users, especially  
690 small and medium-sized enterprises, to calculate their own GHG emissions based on actual activity levels.<sup>62</sup>

691 This initiative follows an earlier commitment to create a data portal for increased availability and accessibility of  
692 climate-related data, collected through the Climate and Environmental Risk Questionnaire for Non-listed  
693 companies / SMEs. The SME Questionnaire was launched by the Steering Group in December 2022, in  
694 collaboration with CDP to aid SMEs' sustainability reporting processes, and raise their sustainability visibility to  
695 lenders, investors and supply chain clients. This can aid SMEs' access to sustainability financing, while  
696 facilitating the collection and assessment of company-level data for risk assessment. It was the first cross-sector  
697 reporting template designed for first-time reporters in Hong Kong, especially SMEs.

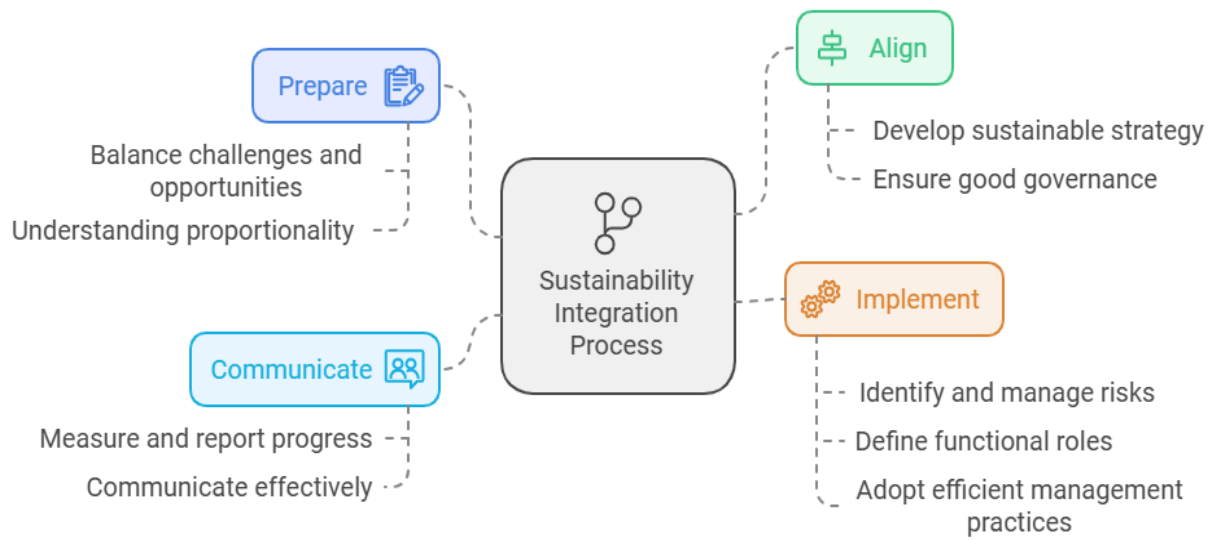
## 698 Conclusion

699 SMEs constitute a major component of the world economy, and can comprise many different  
700 kinds of organizations across an unlimited range of sectors. Integral to global value chains,  
701 both as buyers and suppliers, SMEs are important not only for global economic stability but  
702 also as vital in achieving sustainable development through the SDGs and beyond. They  
703 have the potential to drive significant positive change by adopting sustainable business  
704 practices, helping to address urgent environmental and social challenges. At the same time,  
705 SMEs can benefit from these practices by mitigating risks and seizing opportunities that  
706 arise from global sustainability trends.

707 This guidance provides SMEs with a structured approach to integrate sustainable business  
708 practices with clearly defined actions (Figure 6 and Annexure).

<sup>62</sup> Green and Sustainable Finance Cross-Agency Steering Group website (2024) [New greenhouse gas emissions calculation and estimation tools to support sustainability reporting](#)

710 **Figure 6: Overview of proposed integration actions**



711

712

Source: UN SSE



## 713 Annex: Summary checklist for integration actions

714 The following checklist can be used when pursuing integration of sustainable business  
715 practices as set out in the Model Guidance. Items can be customized according to the  
716 exchange's approach with the option to remove or add actions as may be considered  
717 appropriate.

### 718 ■ Prepare:

- 719 ☐ Understand the context of the business and incentives that drive the business case for  
720 integrating sustainability. Stay informed about relevant regulations and ensure compliance to  
721 avoid penalties and reputational risks. Proactively meeting or exceeding regulatory  
722 requirements can also create business opportunities.
- 723 ☐ Monitor global trends, consumer preferences, and industry standards related to sustainability.  
724 Adapting to these trends can help SMEs anticipate future challenges and opportunities.
- 725 ☐ Review and understand the principle of proportionality to consider whether and how it could  
726 be applied during the process of integration.

### 727 ■ Align:

- 728 ☐ Incorporate sustainability into strategy development. This can commence with development of  
729 a sustainability strategy that aligns with the company's goals and values and which is  
730 eventually integrated into core business strategy. Where possible, enhance the strategy with  
731 specific objectives, timelines, and key performance indicators (KPIs) to measure progress.
- 732 ☐ Pursue the implementation of appropriate structures and systems for good governance..  
733 Ensure that the approach to governance positions the business to provide appropriate  
734 oversight and accountability for sustainability integration.

### 735 ■ Implement:

- 736 ☐ Ensure that risks are identified and plans developed for management of material risks.
- 737 ☐ Identify functional roles that will drive and influence integration. Educate employees to  
738 understand the importance of sustainability and their role in achieving sustainability goals.
- 739 ☐ Adopt efficient sustainable management practices. Start with the basics by implementing  
740 environmentally friendly practices across all aspects of the business, such as reducing waste,  
741 conserving energy, and using sustainable materials.

### 742 ■ Communicate

- 743 ☐ Measure and Report Progress. Establish metrics to track sustainability performance and  
744 regularly report on progress.
- 745 ☐ Communicate Effectively. Share successes, challenges, and lessons learned with internal and  
746 external stakeholders through effective communication channels. Use storytelling and data to  
747 illustrate the positive impact of sustainability initiatives.