Voluntary Standards for Non-Listed SMEs

Sage welcomes EFRAG's draft Voluntary European Sustainability Reporting Standards for Non-Listed SMEs: in the long term, it will bolster the growth of non-listed SMEs and enable a more transparent and sustainable value chain. More generally, Sage supports the principle of the Corporate Sustainability Reporting Directive (CSRD) and the approach adopted by the Commission. However, to achieve meaningful sustainability outcomes, we believe further adjustments are needed to ensure that the proposed standards are simple, proportionate, and manageable for SMEs. In parallel, Sage would support more coherence, both in structure and in content, between voluntary standards and standards for listed SMEs in order to ensure comparability and efficient use by market actors.

SMEs are the backbone of the global economy and play a vital role in creating jobs and driving growth. This means they are also responsible for a significant proportion of global carbon emissions, but they are also less likely than larger companies to have the resources to measure and reduce those emissions. Sage research shows that over 8 in 10 SMEs say that sustainability is important to their business and 58% are already making sustainability performance statements and commitments to their key stakeholders, but just 7.7% of SMEs say that they are undertaking sustainability reporting.[1] If we could triple the number of SMEs reporting on their sustainability performance globally (from 7.7% to 23.1%), it would represent 51 million more SMEs reporting and unlock more than €700 billion in green finance opportunities for these SMEs.

Sage is committed to knocking down barriers for SMEs, and enabling them to progress on their sustainability journey, while continuing to drive growth. In the context of the EU's broader sustainability goals and the CSRD, it is important to propose a simple and proportionate tool for non-listed SMEs to assist them in providing information to both financial stakeholders and business partners within their value chains. As a leading enabler of and voice for EU SMEs and their smooth digital transformation journey, Sage believes that the draft ESRS needs to be simplified in order to streamline the reporting process and embed sustainable business practices in the value chain. In this context, we urge EFRAG to consider the recommendations below:

Promote the use of digital technology for sustainability reporting: Digital technologies are earmarked to play a key role in helping SMEs to report on their sustainability performance, with 70% of SMEs having identified them as having the potential to make reporting easier. For example, Sage Earth is capable of generating an output for Scope 3 emissions regardless of data quality. The quality of the output improves with the use of more activity data, but the key is that it provides an output that can inform users, support reporting and drive mitigating actions. Similarly, automation of certain reporting requirements, especially quantitative ones, has high potential and could encourage SMEs to adopt this voluntary standard.

Minimise administrative burden through automation: Any standard – even if voluntary – imposes additional costs and efforts on preparers. This is especially true when dealing with SMEs, which have limited resources to allocate to these activities: 66% of SMEs believe that upfront costs are too high and 71% believe it is too complex. Reporting standards should be proportionate, relevant, and simple to enable preparers to initiate the process of collecting and reporting sustainability-related information. Consolidating reports at the parent company level will be crucial to reduce the burden on smaller undertakings and allow them to provide information without being distracted by the need to produce a separate report. Furthermore, a common data standard outlining the minimum quality of reporting could be communicated through SMEs' accounting or HR systems, alleviating unnecessary work or the need for external consultants – both of which represent barriers to increased SME adoption of voluntary standards.

Emphasise the importance of GHG emissions reporting: Regarding 'proportionality', this should apply to data quality rather than the necessity of reporting in the case of GHG emissions. Decarbonisation is not feasible without measuring, accounting for, and acting on Scope 3 upstream emissions. Solely reporting on Scope 1 and 2 emissions fails to provide adequate insight, data, or impetus for businesses to effectively pursue emission reduction targets. Scope 3 emissions disclosure should be included in sustainability reporting, at least for upstream emissions, which are more monitorable than downstream ones. Recognising the challenge this poses for SMEs, the quality of the reported Scope 3 data ought to be described as 'proportionate'.

Establish simple and consistent sustainability terminology: 65% of SMEs believe current reporting standards are too complex and that they would be more likely to engage if standards were tailored and simpler. SMEs thus require simplified and clear guidance on key concepts, and the use of complicated language should be avoided, such as materiality assessment. For example, technical terms such as 'impact materiality' and 'financial materiality' are overly complex for an SME audience and should be supplemented with specific examples to ensure that SMEs can quickly and efficiently grasp the issues at hand. Additionally, technical disclosure requirements, both on environment and human rights need to be substantially simplified.

Ensure trust and consistency for SME users: Users of the reported data need to have trust and expect consistency in the reported content. VSME ESRS should therefore ensure consistent reporting, align with existing standards (such as CDP or Ecovadis) and introduce an assurance framework, for example through an open source data exchange.

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[1] All statistics are sourced from *Path for Growth: Making Sustainability Reporting Work for SMEs*, 2023, Sage, PWC, ICC.