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Empowering Small Business

Recommendations for policy makers to enable corporate sustainability reporting for SMEs

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Foreword

While Multinational Enterprises (MNEs) are under increasing public scrutiny regarding their sustainability impacts, the effect of the roughly 400 million small and medium-sized enterprises (SMEs), representing around 95% of all businesses around the world, has largely been overlooked. And while sustainability reporting has become commonplace among MNEs, the practice is much less common among SMEs.

Yet SMEs are integral to global supply chains. Given the strong adoption of sustainability values among MNEs, the SMEs that are proactive on sustainability issues and transparency are in a better position to gain access to new value chains and improve their business. In addition, given their dominant share of the global economy, responsible business conduct among SMEs is essential to a sustainable future.

GRI is committed to work with SMEs to grow their adoption of sustainability values. Together with the Swiss Confederation, GRI is helping SMEs in emerging markets improve their sustainability performance and transparency through reporting. Starting in 2016, the *Competitive Business Program* has established partnerships in Colombia, Vietnam, Ghana, Indonesia, Peru and South Africa. We have also launched an online platform to make it easier for SMEs to prepare and share sustainability disclosures.

But more is needed in order to advance this agenda. Public policy must create incentives and provide tools and resources for SMEs to adopt responsible business practices and report on their progress. In recent years governments, market regulators and stock exchanges are increasingly issuing policy and regulation requiring transparency on sustainability issues. As this trend accelerates, specific attention must be given to the needs of SMEs.

This publication is an assessment of the status of transparency policy and how it affects SMEs. Its aim is to form the basis for a global dialogue on the most efficient and effective ways to involve SMEs in the responsible business movement. Given their collective reach and dominant role in the global economy, SME adoption of responsible business practices is essential for a thriving global community that lifts humanity and enhances the resources on which all life depends.

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Chief Executive, GRI

Introduction

SMEs form the backbone of the world's economies. They represent the majority of companies in most countries, 95% on average.[1] They play a large role in sustainable development, especially in emerging economies, where formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP),[2] making them crucial engines of job creation and income generation. This role continues to grow: between 2003 and 2016, the number of people working full-time at SMEs nearly doubled, taking the share of total employment attributable to SMEs from 31 to 35%, according to the ILO's World Employment and Social Outlook 2017: Sustainable Enterprises and Jobs.

Two pull forces can influence SMEs when it comes to sustainability: demand from the increasingly globalized supply chain, and sustainability as a factor for business success. Regarding the first, sustainable business conduct has become a crucial factor for competitiveness and market access; continued globalization provides SMEs in developing countries with vast opportunities to access new markets to trade and contribute to more sustainable growth and poverty reduction. As for the second, business success is dependent on peaceful conditions, a healthy environment, legal certainty and good human relations within a company and its operations.

Responsible business practices are about continuous improvement; sustainability reporting helps reinforce each of these practices by helping SMEs integrate sustainability thinking into the organization and capture new opportunities through globalized supply chains.

Market dynamics: The role of MNEs in SME sustainability reporting

Increasingly, stakeholders such as investors, consumers and civil society are holding MNEs accountable for adverse sustainability impacts that occur in their production cycles, and even impacts that occur down their supply chain. In a bid to mitigate these risks and to comply with existing regulatory requirements, MNEs are now looking for sustainability performance information throughout their supply chain.

In this way, MNEs can have an impact on SMEs' sustainability strategies and reporting, as they begin to require more information from suppliers throughout their supply chain. But the overwhelming majority of SMEs in global chains do not yet meet these expectations, and such requirements may be perceived as a burden. From the research conducted, it appears that SMEs either do not have the capacity to comply or are reluctant to invest the necessary resources, since they do not always have a clear picture of the benefits that sustainability reporting can bring to their business.

In recent years, it has become evident that sustainability reporting is a critical competitive differentiator to enter global supply chains, making it an important tool for SMEs to improve their competitiveness and market access. A 2015 publication conducted by GRI in collaboration with IOE[3] revealed that the business case is evident: SMEs that do report say sustainability reporting had improved productivity, reduced costs, strengthened their competitiveness and opened up new markets.

A conducive policy environment for SMEs reporting on sustainability

An environment is conducive when it helps enable small businesses to report on their sustainability impact. Policies can contribute to enabling such an environment for SMEs by operationalizing reporting requirements, creating incentives and providing support. In the context of this report, policies include a broad range of instruments such as regulations, legal frameworks and national strategies but also training programs, financial incentives and certifications.

The question guiding this paper is: what kind of policies support and promote sustainability reporting for responsible business conduct for SMEs? **This report aims at providing a comprehensive overview of the current policy practices that are shaping the reporting behavior of SMEs, focusing on the policy elements that enable a conducive environment for SMEs to report on their sustainability impacts.**

Chapter 1.

SMEs & supply chain: trends, opportunities and challenges

Current trends and challenges influence the way small business approach sustainability and reporting. And analyzing them is essential to support the development of policies that effectively empower SMEs to engage with their sustainability impacts and issues through sustainability reporting. The research based on surveys and interviews conducted with SMEs, policy actors, financial institutions, industry associations and SMEs networks highlighted some current development influencing SMEs.

Trends and opportunities

- Reporting regulatory instruments have been on the rise. The 2016 report Carrots and Sticks: Global trends in sustainability reporting regulation and policy identified a total of 383 sustainability reporting policies in 64 countries, rising from 151 in 32 countries in 2010 (table 1: Global overview of reporting instruments). Despite that increase, it should be noted that policies often address SMEs indirectly. Examples include supply chain due diligence and codes of conduct, National Action Plans on Business & Human Rights, national compulsory reporting for all businesses on labor, social security, and national compulsory reporting for public entities and state-owned companies which can be SMEs.

		2006		2010		2013		2016	
Reporting Instruments	Mandatory	35	58%	94	62%	130	72%	248	65%
	Voluntary	25	42%	57	38%	50	28%	135	35%
	Total	**60**		**151**		**180**		**383**	
Countries & Regions		**19**		**32**		**44**		**71** (64 with instruments)	

Table 1: Global overview of reporting instruments

- The 2030 Agenda and the United Nations Sustainable Development Goals present an opportunity for States to integrate SMEs in their national SDGs policies, especially with regards to the "Leave no one behind" principle, through which States can ensure they address and empower SMEs to contribute to the SDGs. SDG target 12.6 opens the door to corporate sustainability reporting specifically, but it only approaches large and transnational companies. Regardless, Member States can use it as a basis and eventually enlarge its scope by empowering SMEs to follow the movement.

- Other global policy frameworks, such as the Paris Agreement, have had an impact on responsible business conduct. By setting greenhouse gas emissions targets, States are now in the process of implementing changes to meet these targets. As a result, to remain competitive, companies need to understand how it affects the market and take corresponding actions, including reporting on their sustainability impacts.[4]

- Pressure for SMEs to engage in sustainability reporting can come from MNEs directly. In certain regions, MNEs have to provide sustainability reports and collect information about their supply chains. For example, MNEs incorporated in the European Union have to comply with the respective national implementation of the EU Directive of Non-Financial Information,[5] which requires sustainability reports from suppliers, consequently having an impact on them; some of those suppliers are small businesses on the other side of the globe.[6] Reporting requirements may be imposed on these small businesses where there are no national policies on reporting.

- Consumers play an important role, as they are becoming aware and careful with their shopping habits and more frequently choose to buy brands they believe are doing social or environmental good.[7] Ethical, fair trade and organic labels are continuing to become more widespread. SMEs are aware of this trend and understand the benefits of qualifying for such labels to meet the expectations of consumers and suppliers. Sustainability reporting cycle can thus create awareness and internal understanding leading to new opportunities for small businesses to perform in the environmental friendly and ethical products market. Other stakeholders will look directly at the sustainability report to find relevant information such as governments in the context of public procurement or businesses for establishing relationship or partnership.

- Civil society organizations are also raising awareness about responsible consumption. They use sustainability data to encourage accountability, drive performance improvement in companies and empower the public to make informed decisions. Such campaigns aim to give consumers information about the sustainability of local and regional products as well as international brands, which can have an impact on SMEs such as Oxfam's Behind the Brands initiative.

Challenges

- The very definition of SMEs provides the first challenge, as each legal system has a different understanding of the term. For example, the **OECD** defines Small and Medium Enterprises (SMEs) as non-subsidiary, independent firms that employ fewer than a given number of employees,[8] whereas for the **EU**, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.[9]

- In most countries, small and medium-sized enterprises (SMEs) are defined as firms employing between 10 and 250 people.[10] Firms with up to10 employees are usually referred to as micro firms. Not only does this lack of consistency make analysis challenging at every turn, it also provides some very practical challenges for the SMEs themselves. For example, it can be complicated for SMEs that supply different MNEs located in various regions to follow different reporting requirements.

- Even when the definition is clear, there is a lack of support for SMEs. Small organizations are unlikely to have in-house sustainability knowledge and expertise, which means they may have to rely on external consultants – an often-costly enterprise.[11] A limited number of SMEs' interviewed for the research shared their fear that transparency may hurt their business, which shows that they are not familiar with the business case for sustainability and reporting; policy incentives and capacity building programs can be key in reversing that belief.

- When it comes to policies specifically, there are very few that cater to SMEs, and almost none are SME-specific when related to sustainability reporting. Most policies are aimed at MNEs and large companies, and therefore impact the small businesses indirectly. This means SMEs are left with a lack of guidance, while still being indirectly impacted through the larger companies they supply. The few policies that are directed at SMEs, are often limited in scope, only addressing one aspect of sustainability, such as environmental or social performance. From the perspective of large companies, policies apply directly but there is a need for to harmonize the extraterritorial legislations that contain different reporting requirements and apply to MNEs that operate on different countries. Otherwise, the addition of different national reporting requirements will fall within the supply chain on small businesses and become a burden.

- This dearth of sustainability reporting regulation for SMEs could be ascribed to policy makers wanting to avoid burdening SMEs with reporting requirements. There is also a disconnect, and a lack of representation or involvement of SMEs in policy making, which means they are not part of building the policy environment in their own favor. In practice, large companies have more means and capacity to engage with policy makers, so policies do not always resonate with the SMEs or address priorities from their perspective.

- Developing countries specifically face the issue of informality. According to the World Bank Group, in 2013 there was between 365 and 445 million SMEs in emerging markets: 25-30 million formal while 285-345 million, roughly 75%, as informal enterprises.[12] For sustainability reporting, this means that the roughly 75% of SMEs that are informal would not fall under the application of reporting frameworks, if they exist, and would not benefit from any available support. The remining 25% formal SMEs are more likely to report because they are subject to formal mechanisms and policies which promote sustainability reporting. Supporting the formalization of SMEs would thus be one indirect way to promote sustainability reporting.

- Combined, these challenges mean there are relatively few SMEs reporting their sustainability impacts. This also presents an opportunity for enacting policies that address the issue by creating a conducive environment that empowers SMEs to engage and commit to sustainable conduct and reporting.

Chapter 2.

Ten practices towards a conducive environment for SME reporting

After collating the results of the surveys, interviews and desk research carried out for this study, ten practices that foster a conducive environment for SME corporate sustainability reporting were identified (methodology in appendices). The first four on the list below are examples of regulations and frameworks while the remaining six are incentives that can further support and enable a conducive environment for SMEs to engage in sustainability reporting. The practices vary in nature, some are mandatory or voluntary, generic or specific, constitute a requirement or an incentive and have a direct or indirect impact on SMEs. The target of the sustainability information to be reported also vary from reporting to specific MNEs as part of the due diligence, reporting to authorities, and reporting to the public. In this chapter, each of the ten practices is described and accompanied by examples and countries where the practice has been identified.

1.

Bringing transparency to the supply chain: national, regional and international supply chain reporting policy

Supply chain due diligence policies have an impact on SMEs, as they require large companies to apply due diligence within their supply chains and ensure that their suppliers – often SMEs – respect labor, human rights and the environment. This can often mean they ask their SME suppliers to provide sustainability disclosures.

At the international level, the OECD Guidelines for Multinational Enterprises contain far-reaching recommendations for responsible business conduct that 44 adhering governments – representing all regions of the world and accounting for 85% of foreign direct investment – encourage their enterprises to observe wherever they operate. Although they are directed at large companies, the Guidelines refer to SMEs and include a recommendation on encouraging SMEs to observe the Guidelines.

More specifically, the OECD Due Diligence Guidance for Responsible Supply chains of Minerals from Conflict-Affected and High-Risk Areas provides detailed recommendations to help companies respect human rights and avoid contributing to conflict through their mineral purchasing decisions and practices. Importers are required to publish a report annually on supply chain due diligence. In 2017, the OECD also published the Due Diligence Guidance for Responsible Supply chains in the Garment and Footwear Sector.

Similarly, the EU Conflict Minerals Regulation 2017 aims to constrain trade in four minerals: tin, tantalum, tungsten and gold. The regulation requires EU companies to review their supply chains and ensure they are importing these minerals and metals from responsible sources. An estimated 600-1000 EU importers are affected by the regulation.

There are a number of national policies too, which either apply to SMEs directly or impact them due to their position in the supply chain. **China's** Due Diligence Guidelines for Responsible Mineral Supply chains 2015, which are voluntary, aim to ensure that Chinese companies can identify and mitigate the risks of them contributing to conflict, serious human rights abuses and misconduct around the world. The Guidelines apply to large companies, but require that they provide information from their supplier, many of which may be SMEs.

The **UK** Modern Slavery Act 2015 aims to force businesses to be more transparent about their operations and human rights records. Section 54 requires large organizations to report annually on the steps they have taken to eradicate modern slavery from within the organization itself as well as its supply chains, and the Act provides a practical guide to enforce transparency in the supply chain. Similarly, the **California** Transparency Supply chains Act (SB 657) requires certain businesses to disclose the efforts they are making, if any, to eradicate human trafficking and slavery from their supply chains. And the 2004 "Lista Suja" – Transparency List of Supply chain Slave Labor is a publicly available blacklist of **Brazilian** companies that were fined in the previous two years for using slave labor, including forced labor and degrading working conditions, in their supply chains. Although this list was received positively by most stakeholders, according to Slave Free Trade organization,[13] the government ceased to publish it in December 2014 reportedly due to strong lobbying from the private sector representatives opposing it. It remains a good example of supply chain policy action that governments can implement.

In **France**, the Corporate Duty of Vigilance Law 2016 implements the legal principles of due diligence recommended by the UN Guiding Principles on Business and Human Rights. Companies need to establish and implement a due diligence plan; this involves conducting an assessment and identifying, analyzing and prioritizing human rights risks including within their supply chain. They must update the assessment on an ongoing basis, since business relationships and operation contexts are in constant flux. They must also identify appropriate actions to mitigate or prevent severe human rights impacts.

These specific policies can help create a conducive environment for SMEs to report but is often limited to the social and human rights aspects of business conduct. Developing similar policies approaching environmental and governance matters within supply chains would be beneficial. In addition, these policies still rely on large companies to establish an adequate and effective system with their suppliers to adhere to the reporting requirements; this means that policy makers cannot easily predict how this will impact SMEs and therefore cannot ensure that it will positively affect the way businesses address their sustainability impacts down the chain.

2.

Providing direction to SMEs: national guidance, frameworks, programs and legislation.

Some countries have adopted policies that empower and encourage SMEs to engage with and report their sustainability impacts. These policies include legislation, voluntary reporting frameworks, guidance, national strategies, procurement policies and public entities policies.

Some countries have adopted policies that address SMEs and sustainability reporting directly. In **France**, the Grenelle II law of 2010 encouraged SME reporting, but as of August 2018, the law no longer applies to SMEs.[14] The requirement for SMEs was revoked following an analysis of the application of this law that showed SMEs had difficulties doing the reporting exercise. However, SMEs can be inspired by the mandatory reporting system for large French companies, which is quite advanced. In **South Africa**, the King IV Report on Corporate Governance for South Africa 2016 applies to all businesses, regardless of their size and sector, and can help SMEs grow sustainably and contributing to sustainable development. The report provides both principles and recommended practice, but its application is voluntary. In addition, it includes sector-specific guidance for different types of organizations on how to apply the King IV Code in their specific contexts, including a supplement for SMEs. **Namibia** also adopted the Corporate Governance Code, based on the King III Code from South Africa, which is voluntary and provides guidance for all Namibian corporate entities – including SMEs.

A national strategy on corporate social responsibility or sustainable business can address SMEs as well, by encouraging all businesses to think about sustainability in their operating contexts. For example, **Costa Rica** adopted a national strategy on corporate social responsibility that addresses SMEs specifically.[15] **Ghana** has a similar strategy, the National CSR Policy, which references sustainability reporting in general terms and addresses all businesses. In **Switzerland**, the CSR position paper and Action Plan (2015-2019)[16] establishes promoting the transparency of CSR activities as one of four strategic priorities. These national strategies may not require or reference sustainability reporting specifically, but they address SMEs directly regarding their sustainability, which empowers small businesses and helps create a conducive environment for them to report.

Chile has a more focused national program: The National Program of Sustainable Consumption and Production (PNCPS). It has a line of action on "Sustainable Small-sized Companies" that aims to "promote sustainability in smaller companies, contributing to their competitiveness through the improvement of its environmental, social and economic performance."[17] It also has a line of action of "Responsible Industries" with the general objective to promote sustainable development from within specific industries, enhancing responsibility and promoting a green and inclusive economy, linked to SDG target 12.6 which states: "Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle". While the program is not specifically about corporate reporting, it does cover the three aspects of sustainability; social, environment and economic, and it is directed towards SMEs. In **South Africa**, the Broad-Based Black Economic Empowerment Act (BEE Codes) instructs companies with regards to enterprise development, procurement practices and supply chain management. The legislation requires regulatory reporting on compliance with the economic transformation agenda[18] which includes sustainability aspects. The Codes of Good Practice address small enterprises.[19]

Some countries focus on procurement through sustainable public procurement programs. In those cases, companies that enter public procurement contracts, including small businesses, may have to report on certain aspects of their sustainability impact. In **Colombia**, the public procurement agency Colombia Compra manages public procurement policies and the following include criteria requiring companies selected for public procurement to disclose certain sustainability information and perform responsibly:

National Program on Sustainable Public Procurement, the Sustainable Public Procurement provision in Decree Nr. 1082, and the Sustainable Production and Consumption Policy. The public procurement system in **Chile** also includes sustainable criteria that seek to evaluate suppliers on social and environmental aspects, including energy efficiency, environmental practices and the incorporation of workers with disabilities. ChileCompra is the public body that manages the public procurement system called MercadoPublico which manages these criteria.[20] In **Ghana**, the country's Public Procurement Authority has been working towards a Sustainable Procurement Program primarily targeted at public enterprises and agencies. Reporting may constitute part of the compliance framework. The sustainability criteria may not address all aspects included in a corporate sustainability report but will require affected SMEs to collect and report on certain impacts.

Other policies addressing public companies refer more directly to reporting. **Chile** has a national policy that requires public companies – including SMEs – to produce sustainability reports. The policy "Deliver transparency in the management of sustainability and accountability through a Sustainability Report in public companies belonging to the Business System" requires public SMEs to start reporting by April 2018. This policy stems from the 2015-2018 Action Plan of the Social Responsibility Council for Sustainable Development, and the Business System issued a guide to Social Responsibility and Shared Supply.

Indonesia and Sweden have similar policies addressing public companies. In **Indonesia**, Article 10 of the Regulation 1. Peraturan Otoritas Jasa Keuangan Nomor 51 /POJK.03/2017 requires public companies – including SMEs – to prepare a sustainability report and submit it to the Financial Services Authority. **Sweden**'s new national CSR policy encourages all public companies to issue sustainability reports.[21] Addressing large and small public companies through sustainability reporting regulations can be one of the effective way to start empowering small businesses and provide examples for private SMEs.

3.

Zooming in to topics: specific reporting requirements

Most companies, regardless of their size, must report on labor, social security and taxes aspects directly to the relevant authorities. Due to the focus on climate change and environment protection in the past decade, many governments have also developed reporting policies regarding the impact companies have on the environment. Although most of these policies do not require the public disclosure of sustainability information, they do require companies to provide the relevant authorities with data and figures related to environmental impact; this can set SMEs on the right path to reporting and transparency. However, there is a need for harmonization in this area, as reporting to different authorities can put an additional burden on SMEs.

Policies that require SMEs to report on environmental aspects are the most-cited topic-specific policies collected in the surveys carried out for this research. Following the 1992 United Nations Conference on Environment and Development in Rio, and the adoption of Agenda 21, which sets out environmental policies, a number of countries established a pollutant release and transfer register to be able to track industrial facilities impact on the environment. For example, **Chile** has a policy related to the emission of pollutants, and the reporting system is linked to the Single Window System of the Pollutant Release and Transfer Register (PRTR). The regulation focuses on the generation, emission and/or transfer of pollutants, so it does not distinguish between large and small companies. Currently, the resulting data can be found on the RETC website and in the annual reports that companies publish. In addition, Chile's Energy 2050 policy requires all companies, including SMEs, to commit to complying with environmental standards, educate and raise awareness among the public and apply changes in order to contribute to the reduction of the country's environmental impacts. **Colombia** also has some programs and frameworks that require SMEs to report on environmental aspects. These include the Unified Environmental Registry (RUA), which targets manufacturing companies on their consumption of energy, water, waste generation and other aspects, the Hazardous Waste Registry (RESPEL), and the National Green Markets Program, which targets small companies specifically.

In **Ghana**, the Environmental Protection Agency Act and Ghana Environmental Assessment Regulations require that companies that are likely to have significant impacts on the environment register with the Environmental Protection Agency (EPA) and obtain environmental permits before commencing operations. They must also submit full annual reports to the EPA, using AKOBEN reporting standards according to the National Environmental Policy.[22] Given the broad scope of the policy, its effectiveness and applicability would need to be assessed in order to evaluate its real impact.

Finally, in **Vietnam**, the Civil Code and Law on Environment requires business owners to prepare an Environmental Impact Assessment (EIA) or an Environmental Protection Plan (EPP) depending of the project size and submit it to the relevant agencies before establishing a business or expanding the business. Once the license is approved, the business owner is required to implement following the EIA or the EPP.

Topic-specific policies also cover reporting on social, economic and other aspects of sustainability. For example, most countries require businesses to comply with labour laws and report on health and safety and social security matters. These reports are generally not public, but companies are required to send their data to the relevant authorities. At the international level, the ILO's International labour standards lay down the basic minimum social standards, and they have been adopted by governments and social partners. Based on the national implementation, SMEs must demonstrate that they meet these labour minimum standards, giving them the basis for reporting in this area. At the EU level, Member States have had to implement the European Directives that set out the minimum standards for safety and health in the workplace, and refer to risk assessment and general management strategy. This applies to SMEs, but 11 Member States introduced specific exemptions for SMEs when implementing the Directive.[23] At the country level, **South Africa**, for example, explicitly requires designated employers with 50 or more employees – therefore including some SMEs – to submit annual reports on the progress they have made toward employment equity according to the Employment Equity Act 2014.

In terms of economic issues, all countries require financial and tax reporting from all established entities within their jurisdiction. Here, informal SMEs become a big issue, as they are not covered by the regulations in place (see chapter 1 on challenges).

These examples of policies addressing SMEs on a specific aspect of sustainability contribute to an environment that is conducive for SMEs to report, as they engage small businesses on sustainability topics. Once SMEs begin reporting on a few sustainability aspects, the next step is to empower those businesses to gather information about all of their impacts in one sustainability report; this can be done by providing incentives and support, and promoting the business case for sustainability.

4.
Applying the global principles for Business & Human Rights: National Action Plans

Like all businesses, SMEs are required to adhere to the UN Guiding Principles on Business and Human Rights, which set the authoritative global standard on business and human rights. Unanimously endorsed by the UN Human Rights Council in 2011, the 31 principles set out the expectations of states and companies about how to prevent and address negative impacts that business can have on human rights. Member States are recommended to adopt a National Action Plan to implement the Principles. The duty of businesses to respect human rights can be partially enforced by requiring them to disclose the information resulting from human rights impact assessments, including for SMEs. The UN Guiding Principles on Business and Human Rights can be used as a tool to establish a conducive environment for SMEs to report on social aspects and human rights in particular at national level.

Many Member States have adopted a National Action Plan, including **Belgium, Chile, Colombia, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland, UK, and the USA**. [24] Almost all of these (with the exception of Italy, Lithuania and Norway) reference SMEs. Some include training and capacity building programs for SMEs (Belgium, Chile, Colombia, Denmark, Finland, France, Germany, Spain, Switzerland) and others talk about financing social enterprises (Belgium, Chile). Belgium's National Action Plan references sustainable labels, and Belgium and Chile publish SME good practices in terms of human rights. Some National Action Plans also include ways to encourage transparency, such as awards (Denmark, US), self-assessment tools (France, Denmark), ranking (Germany) and other incentives (Germany, Spain).[25]

5.

Supporting the local through global efforts: international and regional reporting frameworks and guidelines

International and regional guidance and frameworks can create a conducive environment for SMEs to report on their sustainability impacts by addressing governments, large businesses or SMEs directly. Their application often depends on implementation at the national level. Although this means such guidance and frameworks may have a limited impact on SMEs in terms of compulsory reporting policies, it still creates a reference point and provides guidance for increasing sustainability and transparency.

For example, the UN Global Compact's Express Communication on Progress for SMEs enables companies with fewer than 250 employees to showcase transparency within their means and to focus on continuously improving their reporting. The UN Global Compact also published a Guide to Traceability for SMEs. It illustrates the opportunities, challenges and practical steps for implementing traceability programs and features case examples for driving SME traceability which involves reporting practices between suppliers.

Following the United Nations Industrial Development Organization (UNIDO) and the United Nations Environment (UN Environment) collaboration to develop the global uptake of Resource Efficient and Cleaner Production (RECP), a number of countries adopted RECP programs that deliver services to industries by helping organizations apply preventive environmental strategies and address the three sustainability dimensions: economic, social and environmental. RECP programs are run in 60 countries and involve SMEs in the delivery of support and services. The platform also lists regional actions fostering sustainability for SMEs, such as green rating systems and green credit trust funds. For example, **South Africa'**s NCPC-SA national program promotes the implementation of RECP methodologies to support industries in lowering costs through reduced energy, water and materials usage, and waste management, by way of assessment services that compile sustainability information on the business' impacts. In **Indonesia**, the RECP program developed indicators and a reporting process for registered entities. The RECP programs gain impact on SMEs reporting once it is implemented nationally. It presents an opportunity for policy makers to develop requirements and support for SMEs.

Several European companies have adopted RECP programs. In **Moldova**, more than 200 companies are applying the RECP methodology to their processes, products and services, and monitoring their performance using RECP-related indicators for resource productivity and pollution intensity per unit of output. In addition, SMEs have to disclose the amount of regulated pollutants they emit, as well as their water use and energy intensity, to the National Bureau of Statistics. The EU also launched the Eco-Management and Audit Scheme (EMAS) which currently encompasses more than 4,600 organizations, with more than 7,900 sites registered. The Scheme provides a management instrument for organizations of any type, including SMEs, to evaluate, report and improve their environmental performance. The EMAS regulation offers guidance on transparency and disclosure of environmental performance. **France** applies the EMAS system, for example; the French Ministry for the Ecological and Inclusive Transition is the competent body to deliver EMAS registration. Some SMEs benefit from EMAS registration as it validates the company's best practices in terms of environmental management systems based on the data disclosed.

Another UN initiative is United Nations Conference on Trade and Development's Voluntary Sustainability Standards (VSS) project Fostering green exports through Voluntary Sustainability Standards, which aims to build capacity to use the already available VSS and foster the creation of national action plans that map out the different options for SMEs. The project is limited to certain country at this stage; Vanuatu, Lao People's Democratic Republic and the Philippines. It will be interesting to follow up on the implementation and evaluation.

The EU also established the European Pollutant Release and Transfer Register (E-PRTR) – the Europe-wide register that provides easily-accessible key environmental data from industrial facilities in European Union Member States, as well as Iceland, Liechtenstein and Norway. For each facility, information is provided on the amount of pollutants released to the air, water and land, as well as off-site transfers of waste and of pollutants in waste water from a list of 91 key pollutants, including heavy metals, pesticides, greenhouse gases and dioxins, for the year 2007 onwards. The listed facilities, which can be SMES, must provide the information. This exercise constitutes once more a potential step towards sustainability reporting as it involves reporting on environmental aspects.

A number of different organizations provide tools and guidance to support SMEs in their sustainability efforts, including reporting. ISO Standards tools and guidance are available to help SMEs use their Standards on Environmental Management (ISO 14001), Social Responsibility (ISO 26000), Energy Management (ISO 50001), Sustainable Events (ISO 20121) and Sustainable Procurement (ISO 20400).

6.

Giving a financial boost: national subsidies for SME sustainability

In some countries, grant and subsidy programs for SME reporting have been adopted to support SMEs in disclosing their sustainability data. For example, **Austria** provides a broad portfolio of subsidized consultancy services for SMEs, co-financed by the federal government, provincial authorities and the respective regional chambers of commerce. Enterprises can receive external support for their efforts to introduce environmental management and auditing schemes (EMAS), responsible business conduct programs, sustainability reporting, and several other action lines focused on environmental performance measures. In 2017, more than 2,300 SMEs were given grants.

South Africa's Green Fund is a national fund that seeks to support green initiatives to assist the country's transition to a low carbon, resource-efficient and climate-resilient development path delivering high-impact economic, environmental and social benefits. The Fund is managed by the Development Bank of Southern Africa (DBSA) on behalf of the Department of Environmental Affairs. The access to the fund includes reporting requirements and thus empowers business applicants to engage with reporting on environmental aspects.

7.

Demanding data: SME sustainability reporting requirements from financial institutions

Stock markets and financial institutions play an important role in fostering SMEs to report on their sustainability performance, by imposing reporting requirements. Only a limited number of stock markets address SMEs, but many financial institutions provide services to small businesses which can be decisive in empowering those businesses with regards to sustainability and reporting.

This can be done in a number of ways – including by attaching sustainability requirements to credits and loans. In **Bangladesh**, SMEs that have a credit relationship with banks and financial institutions have to report on some sustainability aspects to align with the banks' sustainability requirements. Examples include the Central Bank green policy guidelines for reporting and Bangladesh Bank's guidelines for environmental and social risk management. In **Colombia**, credit lines powered by the iNNpulsa Program require sustainable information to be reported so the SMEs that show sustainability efforts can obtain loans with preferential interest rates or other financial incentives. In **Turkey**, there are sustainability requirements associated with renewable energy loans – SMEs have to produce an environmental impact analysis report showing their contribution to carbon emission reduction.[26]

In some cases, the impact of financial institutions on SME reporting is a result of the institutions' obligations to report on their own sustainability. In **South Africa**, financial institutions have to issue integrated reports, which may entail looking into the sustainability of their clients and the social and environmental impact of the money invested; this can have an effect on SMEs, as they may be required to provide the underlying information. Regulation 28 of the Pensions Act explicitly states that investing should take into account environmental, social and governance factors. In **Switzerland**, the cantons of Geneva and Vaux now oblige their respective pension funds to comply with sustainable development and responsible investment objectives. The legislative measures compel pension funds to formalize these policy decisions in investment regulations and charter as well as apply them to their asset management. In **Turkey**, the Banks Association of Turkey's Working Group on the Role of the Financial Sector in Sustainable Growth has issued a guide for principles to be integrated and eventually reported on.

Reporting requirements from stock exchanges also have an indirect impact on unlisted SMEs, through the supply chain via large companies: listed companies are required to produce an integrated report, which means they ask SMEs in their supply chain to provide certain sustainability disclosures. There is also one stock exchange listing specifically for SMEs: the Johannesburg Stock Exchange (JSE) in **South Africa** has introduced an alternative exchange (AltX) board for small and medium-sized high-growth companies. Growing SMEs that do not meet the listing requirements of the JSE main board have a chance to register on the AltX. The AltX provides smaller companies with access to capital while providing investors with exposure to smaller, fast-growing companies in a regulated environment in which integrated reporting is required. In **Peru**, Resolution N° 033-2015-SMV/01 established that companies registered in the Lima Stock Exchange are required to issue a Corporate Sustainability Report.

8.

Celebrating success: certifications and awards for SME sustainability

Some national governments have launched certification and awards programs to highlight the importance of sustainability for SMEs and promote good practices. In **France**, for example, the CSR Platform launched an experiment in 2017 to test sector-specific CSR labels adapted to very small businesses, which will form the basis of policy recommendations.[27]

Next to national label programs, there are a number of international ecolabels and fair trade labels, often managed by an independent organization, and which require businesses to comply with specific criteria and report information on their sustainability.[28]

Certification can be specific to certain sectors. **Chile** has a tourist sustainability stamp, the S stamp, that applies to tourism service providers. The S stamp requires a self-assessment report based on 57 criteria, and the results must be shared with the relevant authority. In the five years since it was established, more than 150 SMEs have been certified, and there are currently 86 businesses operating with the certification. The S stamp is one of the 30 certifications recognized by the Global Sustainable Tourism Council (GSTC). The **Netherlands** has the Green Key label, which certified a total of 589 businesses in 2013. The certification process requires businesses to report on 43 mandatory and 39 optional standards related to sustainability environment and CSR criteria and awards three different level of certification based on the information reported.

Competitions and awards bring visibility to the need for businesses to be sustainable. They profile good practices and benefit the businesses that receive them. Three examples of countries with national awards programs are Switzerland, Austria and Indonesia. **Switzerland** has four sustainability awards programs in different areas: the Swiss environment prize, the Myclimate award, the Global Youth Travel Awards and the ZKB sustainability award. **Austria** also has a number of national sustainability awards, such as ASRA, TRIGOS and the Austrian Leading Companies Award.

9.

Raising awareness and providing support: training and capacity building for SME reporting

Several national governments have adopted training programs and tools to build capacity and empower SMEs reporting on their sustainability performance. The sustainability reporting process can be challenging, and specific support for small businesses should be provided. At the international level, the ILO's SCORE capacity-building programme is a practical training and in-factory consulting program that improves productivity and working conditions at SMEs. SCORE Training demonstrates best international practice in the manufacturing and service sectors and helps SMEs to participate in global supply chains. It addresses factors that potentially contribute to human rights violations, such as a lack of information and knowledge, limited management capacity and harmful business practices.

At the national level, France is one of the countries that has developed tools to support SME reporting. **France** runs the course "Le Parcours performant et responsable," which is organized by the region Provence Alpes Côte d'Azur (PACA), the local chamber of commerce and industry (CCI) and the Agency for the environment and energy management (ADEME). It provides a broad scope of tools and services for SMEs to gain expertise on sustainability and market opportunities. And The national standards organization Afnor provides a guide on methodology and a questionnaire for all companies to use.[29] **Denmark** has the CSR Compass, a tool that helps companies "get off to a good start with responsible supply chain management." The tool includes useful advice, cases, templates and useful resources. And **Austria** is one of the few countries that adopted a certifiable Sustainability Management Standard (ONR 192500). RespAct, Austria´s leading Business Platform for Corporate Social Responsibility, offers tools and guidance standards for Sustainability Reporting, and holds webinars to train SMEs.[30]

10.

Enabling key stakeholder action: support other stakeholder activities to improve the SME reporting environment

Many other actors are involved in developing a conducive policy environment for SMEs to report on their sustainability impacts – civil society, SME business network organizations, industry organizations, business schools and trade unions all play important roles. For example, a popular initiative by a civil society coalition in **Switzerland** is asking for mandatory due diligence on human rights and environmental issues based on the OECD Guidelines, which would include a reporting mechanism.[31] Business network organizations can also provide capacity building and further disseminate tools and guidance for SMEs. Government funds can often support such initiatives and therefore could be mindful of the impact of the grants allocated to these stakeholders.

In **Chile**, the Ministry of Agriculture works with the trade associations participating in the Working Group on Sustainability of the Exporting Agri-Food Council in order to collect business information. The initiative aims to increase reporting capability among the trade associations' partner companies. This program is considered an incentive to promote corporate reporting following the GRI Standards and UN Global Compact norm.

Academia also has an influence on the reporting environment for SMEs. Business and management schools play an important role in forming the business leaders of tomorrow and ensuring the dissemination of expertise and technical knowledge of corporate sustainability reporting. Academics can empower SMEs to report, by fostering research and expertise as well as passing on their knowledge on the subject through teaching.

Chapter 3.
Preliminary policy recommendations

The policies, regulations, frameworks and other instruments collated and analyzed in this research form the basis of some preliminary recommendations for enabling a conducive policy environment and empowering SMEs to report on their sustainability impacts. Here those recommendations are outlined, highlighting the actors that can influence the policy environment and what they can do.

There is no one-size-fits-all model for empowering SMEs to report on their sustainability, and policy makers can get inspiration and adapt these practices and examples to their own context and structure. The context of each region is important. If one policy is evaluated as effective and empowering SMEs to report on their sustainability, it may be strongly supported by specific elements distinct to that region's context. A smart policy mix of the regulations and incentives highlighted in this report is perhaps the most effective approach. In addition, the recommendations address both the national and global levels by referring to different policy elements.

This baseline study forms a foundation for discussion and policy dialogue with governments, international organizations, SMEs and actors that participate in the policy making processes. At a later stage, it would be valuable to evaluate the true impact of the policies, in order to complement and support these recommendations.

At the national level:

- **Adopt national policies targeted at large and listed companies with provisions that include supply chain due diligence.** These policies impact SMEs indirectly by requiring large and listed companies to apply due diligence within their supply chains, leading to SMEs reporting on different sustainability aspects. Since many such policies currently mainly address human rights and social aspects, it is recommended to cover the entire sustainability spectrum, including environmental and economic aspects.

- **Lead by example.** Imposing sustainability reporting requirements on public entities and state-owned companies will create a trend for the rest of the private sector, and it will also enable the creation of tools and guidance that are mutually applicable to private and public entities. Similarly, governments can integrate sustainability criteria into public procurement, national subsidies and grants programs. Most national subsidy programs require some type of report from the grantee; this presents an opportunity to add sustainability criteria, especially if the program is related to sustainability in any way.

- **Empower and support awareness-raising activities of business associations and key stakeholders.** The lack of support and expertise is one of the main restraints stopping SMEs from reporting. It is essential that governments address and redress this issue at the national level by empowering business associations, trade unions and chambers of commerce to provide support and capacity building. Empowering stakeholders such as the media, investors and civil society to engage with SMEs and supply chain reporting will also enhance awareness raising by making resources available.

At the global level:

- **Engage and enhance relevant international actors' involvement and influence.** The Agenda 2030 introduced the principle 'Leave no one behind' – this can be used to leverage the commitment to include SMEs. Central actors, such as UN agencies, have the mandate and the capacity to enhance the implementation of this principle and should continue working to enforce the inclusion of SMEs towards the realization of Agenda 2030.

- **Ensure coherence between all the different reporting requirements and policies.** While the uptake in reporting policies is a positive development, it should be noted that large businesses operating in many regions and countries are going to have more and more reporting obligations, which may potentially differ and increase the burden on businesses, including SMEs down the supply chain. Coherence can be driven at regional level, such as the recently-adopted European Union reporting policy, and at the international level. Relevant international actors should explore ways to enable harmonization through collaboration with policy makers and reporting frameworks

- **Enable funding that empowers stakeholders to engage with sustainability reporting for SMEs.** Key stakeholders such as NGOs, trade unions, business networks and civil society play an essential role at ground level. It is key that international funds and grant programs continue supporting and enabling those actors to reach SMEs through international funds and operational grants. Such funds will be essential where no national funds exist, especially in developing countries.

Appendices

I. Overview of surveys and interviews

	Organization/department	SME	Business association	Policy actor	Financial institution
Algeria	✔ CNTPP(National Center for Cleaner Production Technologies)		X		
Austria	✔ STENUM GmbH	X			
	✔ Biogena Naturprodukte GmbH & Co. KG	X			
	✔ Reha Druck, Reha Dienstleistungs- und Handels GmbH	X			
	✔ Kärntnermilch reg.Gen.m.b.H.h, din-Facilitymanagement GmbH	X			
	✔ Lebensart VerlagsgmbH	X			
	✔ Wirtschaftskammer Österreich Abteilung für Umwelt- und Energiepolitik		X		
	✔ respACT		X		
	✔ Strasser&Strasser Consulting GmbH		X		
	✔ Landesregierung Steiermark, A14 Abfallwirtschaft und Nachhaltigkeit		X		
	✔ denkstatt GmbH		X		
	✔ BM für Wissenschaft, Forschung und Wirtschaft			X	
	✔ BM für Land und Forstwirtschaft, Umwelt und Wasserwitschaft.			X	
	✔ BKS Bank				X
	✔ Raiffeisenlandesbank OÖ				X
	✔ Österreichische Kontrollbank AG				X
Bangladesh	✔ Asian Development Bank				X
Chile	✔ Banco Estado				X
	✔ Camara de Industriales del Cuero		X		
	✔ Sustainability and Climate Change Agency - CORFO Committee - Ministry of Economy			X	
	✔ ChileCompra			X	
	✔ Company System (SEP) – Ministry of Economy			X	
	✔ Production Development Corporation (CORFO)			X	
	✔ Ministry of the Environment (Department of Environmental Economics)			X	
	✔ Ministry of Energy			X	
	✔ ProChile			X	
	✔ Ministerio del Medio Ambiente			X	
	✔ Sercotec			X	
	✔ Sernatur			X	
	✔ Secretary of Tourism			X	
	✔ Kaltire S.A.	X			
	✔ Neumaservicio	X			
	✔ Octanis S.A.	X			

Colombia	✔ Centro Nacional de Producción Más Limpia y Tecnologías Ambientales		X		
	✔ GRI local network		X		
Denmark	✔ Nordic Law Group	X			
France	✔ UN Global Compact Local Network		X		
	✔ Ministry for the Ecological and Inclusive Transition			X	
	✔ Plateforme RSE			X	
	✔ Minister of Justice			X	
	✔ Confederation of SMEs		X		
	✔ Mirova				X
Ghana	✔ Ghana Employers Association		X		
	✔ Green Development Consult	X			
	✔ Ekbd Consult	X			
	✔ GRI local network		X		
Indonesia	✔ GRI local network		X		
Moldova	✔ National Cleaner Production Programme of Moldova		X		
Netherlands	✔ VNO-NCW and MKB-Nederland and Global Compact Network Netherlands		X		
Romania	✔ National Centre for Sustainable Production and Consumption		X		
South Africa	✔ IDC-sefa				X
	✔ GRI local network		X		
Sweden	✔ Ministry for Promotion and Sustainable Entrepreneurship			X	
Switzerland	✔ Alternative Bank Schweiz				X
	✔ Holle Baby Food	X			
	✔ J. Safra Sarasin Group				X
	✔ Kerzerslauf	X			
	✔ KMU SWISS AG		X		
	✔ Mobility Cooperative	X			
	✔ Akademischer Sportverband Zürich (ASVZ)	X			
	✔ Federal Office for the Environment (FOEN); Federal Department of the Enviornment, Transport, Energy and Communication DETEC			X	
	✔ Swiss Youth Hostels	X			
	✔ Swiss Life AG				X
	✔ Swiss Research Institute of Small Businesses and Entrepreneurship		X		
Turkey	✔ Development Bank of Turkey				X
Zambia	✔ Zambia Federation of Employers		X		
Total		16	21	18	11

II. Collaboration

This publication was developed by GRI with the support of the Member Countries of the Group of Friends of Paragraph 47 and UN Environment within the framework of the Competitive Business Program, and was funded by the Swiss Confederation State Secretariat for Economic Affairs (SECO).

In June 2012, following the acknowledgement of the importance of corporate sustainability reporting in Paragraph 47 of the outcome document of the United Nations Conference on Sustainable Development (Rio +20), a number of governments came together to form the Group of Friends of Paragraph 47. The group's members are pioneers in sustainability reporting and receive support from UN Environment in a Secretariat capacity.

Through the Competitive Business Program, GRI and the Swiss government help small and medium-sized enterprises in the developing world to gain better access to global supply chains through sustainability reporting. Sustainability reporting is a critical competitive differentiator for SMEs in emerging markets to enter global chains. The Competitive Business Program aims to promote sustainability reporting among SMEs in the program's target countries[32], helping to improve their competitiveness and to facilitate market access.

III. Methodology

Initially, the aim of the project was to evaluate the impact of the policies identified as conducive for SME reporting by assessing the uptake of SME reporting following the adoption of those policies. However, such evaluation proved to be impossible to conduct at this stage, given the limited number of policies in place and also the limited availability of impact data. Therefore, the scope of the research was broadened to include incentives and other elements of policies which could support and enable SMEs to report. The study focuses on providing recommendations for conducive policies based on concrete examples. At a later stage, it would be a worthy effort to evaluate the true impact of these policies by assessing subsequent SMEs engagement and commitment to sustainability reporting.

This publication is based on a series of interviews and surveys conducted by GRI and country members of the Group of Friends of Paragraph 47, complemented by desk research led by GRI. The survey questions were developed in cooperation with the partners who conducted the interview. Questions focused on the state of play of sustainability reporting policies for SMEs, the rationale for SMEs to report, the challenges SMEs face, and the kind of support in place, as well as the access to supply chains for SMEs. Partners collected the survey responses from SMEs, policy actors, financial institutions, SME industry associations and SMEs networks (see the overview of the survey responses in the appendix 2).

The countries covered in the publication are: Algeria, Austria, Bangladesh, Chile, Colombia, Costa Rica, Denmark, France, Ghana, Indonesia, Moldova, the Netherlands, Peru, Romania, South Africa, Sweden, Switzerland, Turkey, Vietnam and Zambia. This selection was made based on the SECO program objectives and through a process that took into consideration the expectations of the Group of Friends of Paragraph 47. GRI also identified and included policies that are relevant to specific aspects, set up in the following countries: Belgium, Brazil, China, the Czech Republic, Germany, Finland, Ireland, Italy, Lithuania, Namibia, Norway, Poland, Spain, the United Kingdom and the United States of America. The examples of policies referred to in the report are not exhaustive. The list of policies cited can be found in the appendix 3.

IV. Contributors

About GRI
GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI's mission is to empower decision-makers everywhere, through its sustainability reporting standards and multi-stakeholder network, to take action towards a more sustainable economy and world. There are over 100 countries communicating impact of business on critical sustainability issues with GRI. www.globalreporting.org

About the Group of Friends of Paragraph 47
The Group of Friends of Paragraph 47 was formed by the governments of Brazil, Denmark, France and South Africa in June 2012 following the acknowledgement of the importance of corporate sustainability reporting in Paragraph 47 of the outcome document of the United Nations Conference on Sustainable Development (Rio +20). The group is supported by the UN Environment Programme (UNEP) in a secretariat capacity. Its founding member governments are all pioneers in sustainability reporting practice and policy.

About UN Environment
UN Environment is the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system, and serves as an authoritative advocate for the global environment.

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V. Disclaimer

This report does not claim to be an in-depth scientific study or analysis. It also does not aim to provide complete and consistent coverage of policies in the countries selected. The report does not include an assessment of the impact of the instruments identified. The identification of policies relied solely on the information collected through the surveys and interviews. The list of instruments is not exhaustive and the ones cited in this publication serve as example.

The research structure allowed the identification of the specific examples included, but it did not provide a systematic analysis of the policy landscape in each of the countries selected.

The last verification of the information with respect to website links were done on 15/03/2018. Changes after this date may not be reflected in this document.

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