

Sustainability is Good for Small Business

Importance of SMEs

SMEs are the backbone of the European economy. According to [official EU statistics](#), 99% of European businesses are small- and medium-sized enterprises ('SMEs') and they provide jobs to more than 85 million European citizens. The vast majority are non-listed. SMEs are at the heart of innovation and entrepreneurship and contribute to a sustainable and digital economy, central to Europe's competitiveness. Collectively SMEs account for a majority of the private sector's environmental, social and governance (ESG) impacts in Europe. Without SMEs there is no Europe. And without SMEs there is no sustainable transition. This sustainable transition will need to be developed and structured; to achieve it many SMEs will seek support from their accountants, typically small- and medium-sized accountancy practices (SMPs).

Benefits of sustainable business

There are many benefits from being a sustainable business. In addition to improved access to finance and a more resilient business model, SMEs can gain a competitive advantage and attract new clients, customers, and employees. Sustainability also helps SMEs comply with the latest social and environmental legislation and contribute to reducing climate change and improving biodiversity. Ultimately, sustainability is good for society, for the environment, and for business. To maximize these benefits, SMEs need to demonstrate their sustainability management and performance through sustainability reporting.

Banks as key facilitators of SME financing

Financial institutions, particularly savings and retail banks, play a crucial role by providing the necessary financing and support to SMEs, which are essential for achieving the EU's climate objectives. To mobilize resources effectively, banks must be empowered to offer tailored financial solutions that address the specific needs of SMEs. Our member banks are committed to sustainability, viewing it as both a responsibility and a growth opportunity. This commitment is reflected in their strategic plans, where they provide customized financial solutions to support SMEs in their sustainability journeys while managing associated risks. Ultimately, this dedication is ingrained in our members' practices, contributing positively to community well-being and environmental health.

ESBG & EFAA for SMEs Statement on SMEs and Sustainability

Addressing legislative hurdles and enhancing access to finance

Access to finance for SMEs is increasingly hindered by legislative challenges and ambiguous sustainability information requirements from banks. These inconsistent information requests lead to uncertainty, prompting a need for a risk-based approach tailored to the unique characteristics of SMEs, such as their size, sector, and geographic location. A transparent framework for sustainability reporting is essential to enable banks to evaluate the environmental impact of their lending decisions effectively, ensuring that SMEs are not adversely affected by regulatory shifts. Moreover, it is crucial to equip SMEs with the necessary tools and guidance to generate and report sustainability data effectively. Finally, by emphasizing the proportionality principle in legislation, regulatory requirements can be better aligned with the capabilities of SMEs, simplifying compliance and improving access to financing for green initiatives. This targeted approach can enhance the ability of SMEs to contribute to the green economy, enabling their active participation in the sustainability agenda alongside larger corporations.

Sustainability reporting

Sustainability reporting involves detailing the social and environmental risks businesses face, and how their activities impact people and the environment. Presently EU rules require large companies and listed companies to publish regular sustainability reports. Starting from 2025, the Corporate Sustainability Reporting Directive (CSRD) will require a broader set of large and listed companies to publish comprehensive sustainability reports which have been subject to independent assurance.

Voluntary sustainability reporting by non-listed SMEs

In response to calls, including from the ESBG and the EFAA for SMEs for proportionate reporting for SMEs, the European Commission has tasked EFRAG with expediting the development of a voluntary sustainability reporting standard for non-listed SMEs (VSME). Work on such a voluntary standard for non-listed micro, small and medium undertakings is outside the scope of the CSRD. However, we cannot and should not forget the needs and requirements from the value chain, or from the stakeholders or from the “market”, which have a great effect on the competitiveness and resilience of SMEs. Rather it stems from the market need to have a common point of reference to be used by SMEs when faced with growing sustainability data requests from business counterparties and lenders. The VSME will serve as a simple reporting tool to assist SMEs in responding to sustainability information requests they receive in an efficient and proportionate manner. This directly addresses the need to ease the reporting burden on SMEs and help them be competitive vis-à-vis large and listed companies and non-EU companies. Furthermore, the EC SME Relief Package of September 2023 refers to the VSME as a measure to support SMEs in accessing sustainable finance. The VSME’s objectives are shown in the table below. **EFRAG plans to approve the VSME in November 2024.**

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The objective of this voluntary [draft] Standard is to support micro-, small- and medium-sized undertakings in:

- (a) providing information that will help satisfy the data demand needs of large undertakings requesting sustainability information from their suppliers.
- (b) providing information that will help satisfy data demand from lenders/credit providers and investors, therefore helping undertakings in their access to finance.
- (c) improving the management of the sustainability issues they face, i.e., environmental and social challenges such as pollution, workforce health and safety. This will support their competitive growth and enhance their resilience in the short-, medium- and long-term; and
- (d) contributing to a more sustainable and inclusive economy.

Source: [Revised Draft VSME, October 2024](#)

Role of Small and Medium-Sized Practices (SMPs)

SMEs often look to their external accountants, typically SMPs, to prepare their financial reports and SMPs are perfectly placed – given their in-depth understanding of the SME client, their expertise preparing their financial reports, and status as SMEs themselves (operating in the accountancy sector). Furthermore, their compliance with high ethical standards, and their role as assurance providers enhance their capabilities to support SMEs in preparing sustainability information and reports. It seems highly likely that many non-listed SMEs that publish sustainability reports in accordance with the VSME will elect to have their SMP prepare their sustainability reports. Since SMPs are independent and expert they can help ensure the quality and reliability of the sustainability report. Indeed today, in many European countries, this is already the case: SMPs are the ones that are mainly advising and accompanying SMEs on their sustainable transition.

Call for Action

We urge an immediate re-evaluation of current regulations that disadvantage SMEs and obstruct their access to sustainable finance. By adopting a more inclusive and equitable approach to sustainability reporting and financing, we can unlock the potential of SMEs as vital players in the transition to a sustainable economy, contributing to the EU's broader environmental goals. Collaboration between banks and SMEs, when appropriate supported by their SMPs, is essential for achieving the green transition and fostering a resilient, sustainable future for all.

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Learn More

[EFAA webpage SMPs Supporting Sustainability](#)

[ESBG Manifesto 2024 – Proposals for Responsible Retail Banking](#)

[EU webpage on corporate sustainability reporting](#)

[EFRAG webpage on the voluntary reporting standard for SMEs \(VSME\)](#)

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