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Shaping the Future of SME Sustainability Disclosure: A Holistic Approach

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List of acronyms

CDSB	Climate Disclosure Standards Board
CPCCC	Conference of the Parties to the United Nations Framework Convention on Climate Change
CSRD	EU Corporate Sustainability Reporting Directive
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, and Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
GCI	Guidance on Core Indicators (for Entity Reporting on Contribution Towards Implementation of the Sustainable Development Goals)
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
GSFO	Global Sustainable Finance Observatory
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICC	International Chamber of Commerce
IFRS	International Financial Reporting Standards
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board
LSME	Non-Listed small and medium-sized enterprise
MNE	Multi-national Enterprise
NLSME	Non-listed small and medium-sized enterprise
PwC	PricewaterhouseCoopers
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SEDG	Simplified ESG Disclosure Guide (Malaysia)
SME	Small and Medium-sized Enterprise
TCFD	Taskforce on Climate-related Financial Disclosures
OECD	Organization for Economic Co-operation and Development

Shaping the Future of SME Sustainability Disclosure: A Holistic Approach

I. Introduction

To achieve the 2030 Agenda for Sustainable Development, governments worldwide have intensified their support for integrating sustainability into business operations and capital markets. The UNCTAD Global Sustainable Finance Observatory (GSFO) reports that by end-2023, 35 leading economies, including all G20 members, had enacted approximately 400 sustainable finance-dedicated policy measures, covering over 90 per cent of global GDP. Sustainability disclosure alone accounts for nearly half of these measures.

While the focus has predominantly been on large corporations and financial institutions, international standards and policy measures related to sustainability disclosure have also significantly altered the operational environment of small and medium-sized enterprises (SMEs), due to their ever-increasing spillover effects worldwide (see chapter II).

These impacts occur mainly through global supply and investment chains, but also through regulations whereby large companies, financial institutions, and regulators are increasingly requiring SMEs to participate in sustainability disclosure. Multi-national enterprises (MNEs) face growing demands for accountability on sustainability issues in their operations and supply chains. And as large companies increasingly require sustainability disclosure from their suppliers, SMEs find themselves under pressure to enhance their sustainability performance and reporting.

With a growing awareness of both the risks and opportunities associated with sustainability-related issues, financial institutions are also increasingly considering sustainability-related factors in their lending and investment decisions. The growing number of funds focused on sustainability outcomes and the rise of sustainable finance indicates that access to capital is increasingly tied to sustainability performance.

Sustainability reporting is also emerging as a key competitive advantage for all companies, as research reveals that sustainability integration and reporting can lead to innovation, reduced operational costs, and minimized risks for SMEs.[1] Adherence to sustainable practices is increasingly becoming a prerequisite for joining global supply chains and capital markets, offering SMEs growth opportunities and access to new markets.

Although direct regulation of SMEs remains limited, the trend towards transparency and increased disclosure indirectly influences SME practices.

In response, national governments have started to put in place necessary guidelines, requirements, and standards on SME sustainability disclosure (see chapter III), pushing SMEs towards greater disclosure and more detailed sustainability reporting.

Despite significant benefits, SMEs face many challenges implementing these disclosure requirements. According to a survey conducted by SAGE, PwC, and the International Chamber of Commerce (ICC) in 2023, more than 8 out of 10 SMEs recognized sustainability as a substantive issue, but just 7.7 per cent were undertaking sustainability reporting.[2]

The fragmentation of international standards is the primary obstacle preventing SMEs from fully participating in sustainability disclosure practices. In many cases, stakeholders require SMEs to report against different standards with various performance indicators. The progressive convergence of leading international standards such as the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) standards provide an opportunity to establish a potential global

[1] https://www.globalreporting.org/news/news-center/2020-11-26-gri-supports-sustainable-efforts-among-smes/
[2] https://www.sage.com/en-gb/company/sustainability-and-society/planet/#cop28.

baseline for sustainability disclosure. However, the adoption and implementation of these standards will take time, and navigating the complexities of international standards remains the principal challenge for SMEs (see chapter II and IV). Other challenges include the lack of access to high quality data, lack of expertise, weak internal reporting capacities and the absence of training and support systems tailored to the needs of SMEs. These challenges point to daunting upfront costs for SMEs, which can outweigh potential benefits, and make sustainability disclosure almost unfeasible for some companies (see chapter IV).

Given the increasing demands for sustainability disclosure, and the crucial role that SMEs play in the global economy, it is time for policymakers to integrate SMEs into the global sustainability architecture, including in international forums such as the G20.

Compared to large enterprises, the sustainability journey of SMEs requires simplified yet clearly defined and robust policy frameworks and standards. Additionally, the creation of an enabling ecosystem to engage all stakeholders in support of SME sustainability integration, along with incentives to make sustainability disclosure affordable and feasible for SMEs, will be indispensable (see chapter V).

II. Emerging leading international standards and their spillover effects

The landscape for international sustainability reporting standards is rapidly evolving. The ISSB, GRI, and EU standards have demonstrated their potential to become leading international standards with significant implications for developing economies and their SMEs. Although progress has been made on enhancing the interoperability of international standards, the fragmentation and complexity of these standards continues to be an urgent policy challenge.

1. Latest developments in leading international standards

International Sustainability Standards Board (ISSB)

The ISSB is playing a crucial role in establishing a global standard for sustainability reporting. In 2023, it finalized two significant standards: International Financial Reporting Standards (IFRS) S1 on general sustainability-related disclosures, and IFRS S2 on climate-related disclosures. These standards 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.

Established in 2021, the ISSB is tasked with developing standards which can serve as the global baseline for the disclosure of sustainability-related risks and opportunities, responding to the needs of investors and other capital market participants. This initiative has received support from capital market participants and international policymakers, including members of the G7, the G20, and the Financial Stability Board. Based on this support, the IFRS Foundation tasked the ISSB with establishing international sustainability disclosure standards that are cost-effective and informed by market dynamics, thus enabling companies to offer investors comparable and consistent information for their decision-making processes.

The ISSB Standards draw upon a range of voluntary, investor-focused standards and frameworks, such as the Taskforce 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. The initial standards issued by the ISSB outline general requirements for sustainability-related financial disclosure (ISSB Standard S1) and specific requirements for climate-related financial disclosure (ISSB Standard S2). These standards mandate entities to disclose significant information regarding sustainability and climate-related risks and opportunities.

Additionally, the standards specify sources of guidance, including the industry-based SASB Standards for S1 and the TCFD framework for S2, to assist companies in identifying their risks, opportunities, and recommended metrics. Companies are required to disclose information about their governance and risk management related to sustainability and climate, in addition to the strategies, metrics, and targets used to manage these areas.

An increasing number of jurisdictions have already adopted the ISSB standards, with many others working towards future adoption (table II.1). While some jurisdictions intend to fully adopt ISSB standards as the globally consistent baseline, others are choosing to tailor standards implementation according to their national needs. These different approaches may result in inconsistencies in the information reported by complying entities.

Table II.1
Status of adoption of ISSB standards, as of April 2024

Jurisdiction	Status	Implementation date
Australia	Consulting on standards until 1 March (currently adopting only IFRS S2)	Staggered implementation from January 2025
Bangladesh	Introduced mandatory requirements for Banks and Finance Companies introduced	January 2024
Brazil	Adopting in full (IFRS S1 and S2)	January 2026
Canada	Consulting on draft standards from March to June 2024	January 2025
Costa Rica	Adopted in full (IFRS S1 and S2) in 2024	Phased mandatory adoption for public companies (January 2025) and companies classed as large taxpayers (January 2026)
Hong Kong, China	Developing adoption road map	-
Japan	Issued standards for consultation	March 2025
Kenya	Developing a road map	-
Malaysia	Consulted on standards	Phased mandatory adoption for listed and unlisted companies December 2025–December 2027
Morocco	Reviewing disclosure and target-setting requirements	Early 2025 (currently only for banks)
Nigeria	Consulted on adoption roadmap	Phased mandatory adoption for listed companies and SMEs January 2027 - 2030
Pakistan	Consulting on adopting IFRS S1 and S2	Phased mandatory reporting between January 2025 - January 2027
Philippines	Revising existing sustainability reporting guidelines for listed companies to incorporate IFRS S1 and S2	January 2025
Singapore	Introduced mandatory climate-related disclosures (currently adopting only IFRS S1 for climate reporting)	January 2025 for listed companies, January 2027 for unlisted companies with assets of more than $1 billion
Republic of Korea	Standards due to be finalized by June 2024	January 2026 or later
Türkiye	Adopted in full (IFRS S1 and S2)	January 2024
United Kingdom	Consulting on standards until July 2024	-

Sources: UNCTAD World Investment Report 2024.

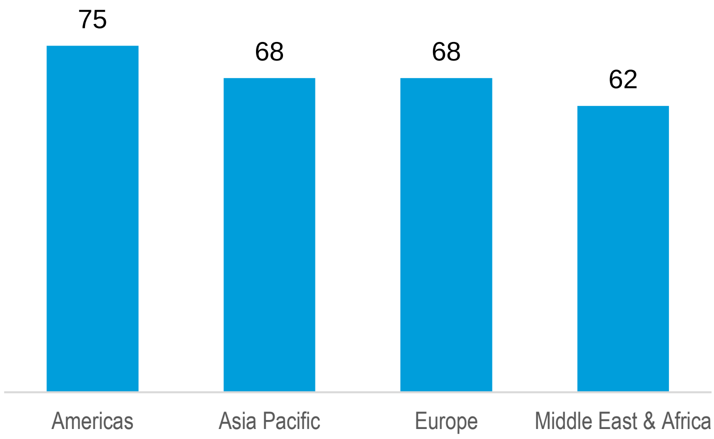
Global Reporting Initiative (GRI)

The GRI Standards are widely used for corporate reporting on sustainability impacts (figure II.1). The revised Universal Standards were approved in 2021, and came into effect on January 2023. The GRI also includes sector-specific standards, recognizing the unique sustainability impacts and challenges different industries face. In January 2024, additional sector reporting standards for coal and agriculture, aquaculture and fishing came into effect. The GRI has also published revised biodiversity and mining standards. To keep the standards relevant and up to date, the GRI's Global Sustainability Standards Board sets out a new work programme every three years. For 2023–2025, the GRI will continue its work reviewing existing standards and developing new topical and sectoral standards.

Figure II.1

Adoption of GRI standards by companies, by region, 2023

Per cent of companies



Source: KPMG.
Note: Sample of 4,581 N100 companies that report on sustainability or ESG matters. The “N 100” sample is the set of largest 100 companies in each of 58 countries, territories and jurisdictions.

EU Corporate Sustainability Reporting Directive (CSRD)

The EU's Corporate Sustainability Reporting Directive (CSRD) marks a significant shift towards mandatory sustainability reporting for companies. In January 2024, the European Sustainability Reporting Standards (ESRS) were introduced, establishing comprehensive sustainability disclosure standards for large companies.[3] These requirements were created to enhance the quality of sustainability reporting and ensure that investors receive accurate information on the sustainability risks that companies are exposed to.

The standards developed by the European Financial Reporting Advisory Group (EFRAG) became effective in 2024, and approximately 50,000 companies will now be required to report on a wide range of sustainability issues.

These efforts aim to cover all relevant aspects of environmental, social, and governance (ESG) issues, providing a comprehensive view of companies' sustainability performance. The CSRD represents a major step forward in the EU's efforts to enhance transparency and promote sustainable business practices.

In accordance with the CSRD, listed SMEs will need to report according to standards that are proportional to the complexity of their activities, capacities, and resources. The EU has published two exposure drafts for sustainability disclosure standards applicable to listed and non-listed SMEs respectively (see section III.1). Listed SMEs are required to start reporting in 2026: for a transitional period of two years after the standards come into effect, these companies can opt out of reporting requirements by providing sufficient explanation as to why sustainability information cannot be provided. Non-listed SMEs may choose to use the proportional standards on a voluntary basis.

[3] See https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

2. The intensifying policy spillover effects

International standard setting has so far primarily focused on larger corporations. However, several repercussions are cascading down to SMEs and have been intensifying across borders in recent years.

This spillover manifests through various channels, with notable impacts along global supply chains. Under the IFRS S1 and S2, GRI as well as EU standards, businesses are mandated to report Scope 3 emissions, which affect all businesses in the supply chain, including SMEs. Through global supply chains, the effects of these international standards can extend beyond only the jurisdictions where they have been formally adopted. For example, under the European Union Corporate Sustainability Reporting Directive (CSRD), non-European Union companies are required to disclose sustainability as requested by the regulation if they generate more than €150 million in the European Union market. It is estimated that about 3,000 United States companies and more than 10,000 businesses worldwide will be affected by this reporting obligation (Huck, 2023).

The second channel through which spillover effects manifest are global investment chains. In addition to supply chain disclosures for scope 3 GHG emissions, the ISSB S2 standards require financial institutions to report "financed emissions" – the emissions associated with their investments, including those of SMEs. The EU SFDR also includes similar requirements. As sustainable finance continues to gain policy and regulatory traction, all companies, including SMEs, are increasingly expected to provide sustainability reports to meet investor demands.

Box II. 1
EU Carbon Border Adjustment Mechanism

The EU's Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to "put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries."

By confirming that a price has been paid for the embedded carbon emissions generated in the production of certain goods imported into the EU, the CBAM will ensure that the carbon price of imports is equivalent to the carbon price of domestic production, and that the EU's climate objectives are not undermined.

The CBAM is currently in a transitional phase and will be fully effective from January 2026. During this phase, only reporting obligations, not carbon pricing, will apply. The CBAM will first apply to imports of certain carbon emission intensive goods that have significant risk for carbon leakage. This includes cement, iron, steel, aluminum, electricity, and hydrogen. The scope of the CBAM is expected to cover all product groups covered by the EU Emissions Trading System (ETS) by 2030.

As of October 2023, importers of goods into the EU are required to provide quarterly reporting on the direct and indirect emissions embedded per product, corresponding to Scope 1, Scope 2 and potentially Scope 3 emissions as defined by the GHG Protocol. Additionally, importers will have to report on any carbon price due for those emissions, and the country where the carbon price is applicable.

Companies currently have flexibility in their choice of calculation method. However, as of January 2025, only the EU method will be accepted. Other reporting methods will only be available for goods with an estimated 20 percent or less of total embedded emissions. Verification requirements will come into effect in 2026, and will be consistent with EU ETS standards.

When the CBAM becomes fully effective in 2026, companies will be required to purchase certifications corresponding to the carbon price they would have paid if production took place in the EU.

Source: EU Commission website.

Sustainability reporting requirements also arise from legislative developments beyond the EU standard-setting community. For instance, the European Union Carbon Border Adjustment Mechanism is not specifically a sustainability disclosure regulation, yet its implications for climate-related disclosures will extend well beyond Europe. Starting in October 2023, importers of certain goods into the European Union are required to report quarterly on the direct and indirect emissions embedded in each product, corresponding to Scope 1, Scope 2 and potentially Scope 3 emissions (see box II.1). This requirement will have a cascading effect, impacting exporters and their suppliers, including SMEs from other regions. Such reporting requirements add further impetus to the adoption of international standards, reinforcing the need for coherence in reporting approaches.

The ripple effects of these international standards and measures are clear: SMEs will have to engage in sustainability reporting regardless of whether their home countries have formal disclosure regulations. The policy implications are significant and require a swift and coordinated response.

3. Interoperability and consistency in international sustainability reporting standards

Alongside the shift from voluntary disclosure initiatives towards mandatory reporting requirements, there have been renewed efforts to enhance the interoperability of the current sustainability reporting landscape. As new requirements are being introduced, companies operating across jurisdictions are increasingly facing inconsistent disclosure obligations, leading to potential inconsistencies in the information reported from one jurisdiction to another. Similarly, investors operating internationally may face additional challenges when comparing the disclosures of companies they are assessing. To minimize these interoperability issues, standard-setters have begun prioritizing the alignment of their standards.

Since March 2022, the GRI's Global Sustainability Standards Board and the ISSB have worked together under a memorandum of understanding to coordinate work programmes and standard-setting activities. The GRI has also actively engaged in the development of the EU's ESRS through collaboration with the European Financial Reporting Advisory Group and the Technical Expert Group. Their work targeted the achievement of optimal interoperability between the GRI Standards and the ESRS.

These efforts highlight the benefits of further harmonizing the global reporting landscape. To meet the information needs of a multi-stakeholder audience, the GRI Standards address an organization's impacts on the economy, environment and people, whereas the ISSB standards focus on the information needs of investors and other capital providers (see annex 1). The ISSB and the GRI Standards should be viewed as two interconnected reporting approaches that take distinct but complementary perspectives, and together form a comprehensive corporate reporting system for the disclosure of sustainability information. The continued GRI-ISSB collaboration commits both organizations to ensure that their respective standards are compatible. This will provide assurance to reporting companies while supporting the transparency that investors and other stakeholders require.

Jurisdictions such as the EU and the United States are working with the ISSB and GRI to enhance interoperability while developing their own sustainability reporting requirements. However, with the proliferation of national regulations and policy measures, the lack of interoperability and consistency in national sustainability reporting requirements remains a challenge.

III. Policy reactions to SME sustainability disclosure: country practices

Although the scope of current international disclosure standards primarily focuses on large entities, developed and emerging economies have been responding to the need for integrating SMEs into sustainability reporting requirements by developing guidelines, regulations and national standards tailored to SMEs.

Notwithstanding these efforts, policymaking in this area is still at an early stage. SMEs have not been fully engaged in the policymaking agenda, and systematic efforts to establish a clear framework for SME sustainability disclosure are absent at both the national and international levels.

This section reviews policymaking and supporting practices in G20 economies and other regions, as well as at the international level to provide an overview of the current landscape of policymaking on SME sustainability reporting and to inform policymaking in the area in the future.[4]

1. SME sustainability disclosure standards

While standard setting for SMEs remains rare at both national and international levels, the EU has been a leader in this policy area. With the implementation of the ESRS in January 2024, large companies will start requiring their suppliers, including SMEs, to disclose sustainability data in compliance with reporting obligations.

To address the increased demand for SME sustainability information, the European Financial Reporting Advisory Group (acting as technical advisory to the European Commission) has published two exposure drafts for standards applicable to both listed and non-listed SMEs (LSME and NLSME) respectively.[5] These standards create a proportionate reporting regime tailored to the reporting needs and constraints of SMEs. Widening the scope of ESRS beyond large companies not only enables accurate and transparent sustainability reporting for SMEs, but also increases SME access to sustainable finance, and integrates them more fully in the transition towards a sustainable economy.

Based on the principle of proportionality, the ESRS LSME standards are less demanding than its counterpart for large companies. This is to account for the specific challenges which SMEs face, particularly financial and human resource constraints, a lack of technical expertise, and lack of adequate systems for data collection and management.

In the LSME standards, Section 1 (General Requirements), Section 2 (General Disclosures) and Section 3 (Policies, Actions, and Targets) include cross-cutting and mandatory disclosures for all undertakings, while Sections 4 to 6 cover topical disclosures for Environmental, Social and Governance impacts.[6]

In contrast, the NLSME standards are voluntary and built around three modules. The first basic module includes environmental, social, and business conduct disclosure areas.[7] At the entity's discretion, two additional disclosure areas for Policies, Actions, and Targets and Business Partners can be included to increase the stringency of the reporting requirements (see annex 1 for a comparison between the EU

[4] The UNCTAD Global Sustainable Finance Observatory regulation database serves as the main data source for the analysis of the section. Country examples also benefit from the GRI's publication Empowering Small Business: Recommendations for Policy Makers.

[5] See https://www.efrag.org/News/Public-479/EFRAGs-public-consultation-on-two-Exposure-Drafts-on-sustainability-r

[6] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FESRS%2520LSME%2520ED.pdf

[7] https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2305101045339288%2F03-02%20EFRAG%20SR%20TEG%20231108%20VSME%20ESRS%20ED%20clean.pdf

LSME and NLMS standards with other international standards).[8] Both sets of standards adopt a double materiality approach, which includes the financial impact of sustainability matters on an organization, and the impact of the organization's activities on society and the environment.[9]

As the EU develops standards targeted at SMEs, a few countries have begun to follow suit. As an example, the Malaysian Securities Commission launched a Simplified ESG Disclosure Guide (SEDG) in 2023. Serving as voluntary sustainability disclosure standards for SMEs, the guide identifies 15 subtopics across environmental, social, and governance disclosure areas.[10] Although the SEDG also considers alignment with international standards such as the GRI and the ISSB, the SEDG diverges from the ESRS standards in specificity, scope, and application. While the SEDG prioritizes simplicity and scalability for SMEs in supply chains, the ESRS standards are more comprehensive, and require more detailed reporting from SMEs (see annex 2).

These differences highlight inconsistencies across countries and regions for SME sustainability disclosure standards. A global baseline for SMEs can pre-empt interoperability challenges by ensuring alignment across not only disclosure areas, but also principles relating to materiality and verifiability.

2. National strategies and guidelines

National strategies and guidelines are key in providing SMEs with guidance for sustainability disclosure. G20 members and other countries have begun implementing sustainable development or sustainable finance strategies that provide high-level guidance or principles aimed at integrating sustainability into SMEs' financial reporting requirements.

For example, Argentina's Sustainable Finance National Strategy emphasized the importance of embedding SMEs in sustainable finance, taking SMEs' needs and capacity into consideration with respect to sustainability integration, disclosure and capacity-building.

The EU also provides increasing access to sustainable finance opportunities for SMEs with the aim of increasing uptake of voluntarily sustainability reporting. This is a key policy action in its Strategy for Financing the Transition to a Sustainable Economy.

In South Africa, sustainability disclosure requirements specified in the King IV Report on Corporate Governance apply to all businesses, regardless of size and sector.[11] The report provides principles and recommended practices to help SMEs to grow sustainably and contribute to sustainable development through voluntary sustainability disclosure.

India's National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business[12] propose core principles on responsible business, encouraging SMEs to report on sustainability issues. And in Indonesia, the Financial Services Authority, in its Regulation No. 51/POJK.03.2017, mandates public SMEs to report on sustainability annually.[13]

3. Sustainability disclosure requirements in global supply chains

Sustainability disclosure requirements in global supply chains have been increasingly adopted by G20 and other economies. Disclosure requirements include labour practices, raw materials sourcing, and climate impact, which is reported mainly through the disclosure of Scope 3 carbon emissions.

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[8] https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2305101045339288%2F03-02%20EFRAG%20SR%20TEG%20231108%20VSME%20ESRS%20ED%20clean.pdf

[9] https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.6%20-%20WP%20on%20draft%20ESRG%201.pdf

[10] https://www.capitalmarketsmalaysia.com/simplified-esg-disclosure-guide-sedg-for-smes/

[11] https://www.adams.africa/wp-content/uploads/2016/11/King-IV-Report.pdf

[12] https://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

[13] https://ojk.go.id/id/regulasi/Pages/Penerapan-Keuangan-Berkelanjutan-bagi-Lembaga-Jasa-Keuangan,-Emiten,-dan-Perusahaan-Publik.aspx

The EU has been at the forefront of incorporating value chain climate disclosures into corporate reporting obligations. Under the ESRS, while entities may omit information in other disclosure areas if deemed non-material, an entity must justify the non-materiality of GHG emissions and provide a forward-looking analysis that explains whether GHG emissions will become material in the future. Additionally, the calculations for total emissions must be supported by detailed descriptions of methodologies, assumptions, and emissions factors.[14]

The draft ESRS for LSMEs includes reporting requirements that cover Scope 1 (direct), Scope 2 (indirect), and Scope 3 (value chain) emissions based on the GHG Protocol. LSMEs face the same obligation as large companies to justify claims of non-materiality when omitting emissions information. However, unlike large companies, entities that employ less than 50 employees may omit data on Scope 3 emissions and total GHG emissions in their first year of preparing the sustainability statement. In addition, the ESRS for LSMEs includes a value chain cap, which sets a limit on the level of detail that large companies can expect from SMEs for value chain climate information.[15] As such, large entities cannot require information from SMEs beyond what is included in the LSME standards.

According to the draft ESRS for non-listed SMEs (NLSMEs), entities are required to report on scope 1 and scope 2 location-based emissions. While reporting on Scope 2 market-based emissions and Scope 3 emissions are voluntary, NLSMEs in high emission industries or with adequate capacities are encouraged to do so.[16]

In addition to impact on climate and environment, requirements on due diligence and disclosure of human rights issues have also been widely integrated into supply chain management. At the international level, the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas,[17] as well as the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear sectors,[18] provide sectoral recommendations to assist companies, including SMEs, in respecting human rights.

France's Corporate Duty of Vigilance Law requires businesses to create and implement a due diligence plan that includes analysing, identifying, and prioritising human rights issues in their supply chains. The United Kingdom's Modern Slavery Act[19] also emphasizes supply chain reporting. It requires enterprises, including SMEs, to report their efforts to combat slavery in their business operations and supply chain networks. This legislation highlights the critical role of SMEs in protecting human rights and encourages them to adopt transparent and responsible supply chain practices. Australia followed a similar path with its Modern Slavery Act in 2018,[20] mandating entities above a certain turnover threshold to report on the risks of modern slavery in their operations and supply chains, and outline actions taken to address those risks.

4. Disclosure requirements for access to capital

National governments have increasingly put in place sector specific policy measures to leverage the potential of capital markets to finance sustainable development and align their practices and markets with more sustainable outcomes. According to the UNCTAD Global Sustainable Finance Observatory

[14] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302772

[15] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FESRS%2520LSME%2520ED.pdf

[16] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FVSME%2520ED%2520January%25202024.pdf

[17] https://www.oecd.org/daf/inv/mne/mining.htm#:~:text=Investment%20policy,OECD%20Due%20Diligence%20Guidance%20for%20Responsible%20Supply%20Chains%20of%20Minerals,Affected%20and%20High%2DRisk%20Areas&text=The%20OECD%20Due%20Diligence%20Guidance,mineral%20purchasing%20decisions%20and%20practices

[18] https://www.oecd.org/corporate/mne/responsible-supply-chains-textile-garment-sector.htm.

[19] https://www.legislation.gov.uk/ukpga/2015/30/enacted.

[20] https://www.ag.gov.au/crime/people-smuggling-and-human-trafficking/modern-slavery#:~:text=The%20Commonwealth%20Modern%20Slavery%20Act,at%20least%20A%24100%20million.

database,[21] most G20 members have already adopted policies and regulations supporting sustainable banking, insurance, and investment. Additionally, the past five years have seen an increase in regulations concerning sustainability disclosures, enabling SMEs to access green credit lines and project financing.

Although most stock markets do not directly regulate SMEs, several examples of best practices to support SME sustainability disclosure have emerged in recent years. For example, the Beijing Stock Exchange released draft sustainable development disclosure guidelines for public consultation in February 2024,[22] encouraging listed companies (80 per cent of which are SMEs) to voluntarily disclose sustainability reports in accordance with the guidelines (see box III.1). The Johannesburg Stock Exchange (JSE), along with its alternative exchange for SMEs known as AltX, has also drawn from leading international standards to develop sustainability disclosure guidance to support listed SMEs in reporting.

Box III. 1
Beijing Stock Exchange guidelines on sustainability disclosure for listed companies

In February 2024, the Beijing Stock Exchange released draft guidelines for sustainable development disclosure, aiming to enhance transparency and accountability among listed companies. The guidelines emphasize:

- Creation of a disclosure framework: companies are to report on governance, strategy, impact, risk management, and sustainability goals, aiding stakeholders in understanding how businesses manage sustainability challenges.
- Environmental protection: focused on reducing pollution, protecting biodiversity, and promoting circular economy practices, companies are encouraged to report on their efforts in environmental conservation.
- Alignment with national strategy: companies should address their contributions to rural revitalization, social responsibility, innovation, and secure supply chains, aligning with national development goals.
- Corporate governance disclosures: emphasizing the integration of sustainable development with corporate governance, the guidelines advocate for improved governance structures and ethical business practices.

These initiatives are designed to guide companies towards sustainable practices while fostering transparency and ethical governance.

Source: Beijing Stock Exchange

Financial institutions that provide financial services to SMEs can play a critical role in encouraging SMEs sustainability reporting, through sustainable banking policy measures or other initiatives. One way to do so is by attaching sustainability requirements to credit lines and insurance. For example, in Türkiye, renewable energy loans come with sustainability obligations under the Mid-Size Sustainable Energy Financing Facility (MidSEFF), requiring SMEs to document their environmental impact and contribution to reducing carbon emissions.[23] In Bangladesh, SMEs must report on specific sustainability issues to receive sustainable loans, as requested by the Central Bank Sustainable Finance Policy for Banks and Financial Institutions (see box III.2).[24]

[21] https://gsfo.org/sustainable-finance-regulations-platform.
[22] https://www.bse.cn/uploads/6/file/public/202402/20240208220141_ivsr749iv2.pdf.
[23] https://ebrdgeff.com/turkiye_facilities/#:~:text=T%C3%BCrkiye%20Mid%2DSize%20Sustainable%20Energy,efficiency%20and%20renewable%20energy%20projects.
[24] https://www.bb.org.bd/mediaroom/circulars/gbcrd/dec312020sfd05.pdf.

Box III. 2
Bangladesh Sustainable Finance Policy for Banks and Financial Institutions

In December 2020, The Bangladesh Bank released the Sustainable Finance Policy for Banks and Financial Institutions,[15] which proposed a sustainable finance and green taxonomy as the national classification system for socially and environmentally sustainable economic activities.

The social component of the taxonomy includes finance for sustainable agriculture, sustainable "cottage, micro, small & medium enterprises (CMSEM)", and socially responsible economic activities.

The taxonomy is primarily used to encourage and supervise banks and financial institutions to grant sustainable loans and conduct sustainable investments, with preferential treatment to SMEs.

Source: Bangladesh Bank.

5. National incentives and supportive measures

Incentives and other supportive measures have been implemented by G20 and other economies to support SMEs' adoption and reporting on sustainable business practices, including financial or fiscal support, certification, awareness-raising, and capacity building.

Financial or fiscal incentives can play an instrumental role in motivating SMEs to implement sustainability integration and disclosure, particularly due to their resource constraints. In Germany, for example, the KfW Development Bank offers subsidised loans and grants for SMEs investing in energy-efficient technologies and renewable energy sources.[25] The Business Development Bank of Canada provides funding options and advisory services to SMEs primarily focused on sustainability.[26] The Development Bank of Southern Africa facilitates access to South Africa's Green Fund, which encourages green reporting through its reporting criteria.[27]

Certification serves as another useful tool to recognize and reward SMEs' commitment to sustainability disclosure. In France, the Supplier Relations and Responsible Purchasing Label (RFAR)[28] has been awarded to enterprises, including SMEs, as responsible purchasers. Moreover, the Green Key Label, which requires companies in the travel and hospitality industry to report on a set of obligatory and optimal sustainability environment standards, has been adopted by SMEs in more than 50 countries.[29]

Awareness-raising and capacity-building initiatives are also critical in providing SMEs with the necessary knowledge and skills to disclose and communicate sustainability successfully. In France, *Le Parcours Performant et Responsible*, a platform for SMEs to report on sustainability issues, offers companies a range of tools and advice on sustainability and related disclosure matters.[30] In the United States, the Small Business Administration offers various tools and resources to help SMEs report on sustainability.

[25] https://www.kfw.de/inlandsfoerderung/Companies/Energy-and-the-environment/.
[26] https://www.bdc.ca/en/about/sustainability.
[27] https://www.dbsa.org/solutions/climate-financing/green-fund.
[28] https://www.economie.gouv.fr/mediateur-des-entreprises/label-relations-fournisseurs-et-achats-responsables.
[29] https://greenlabelservice.nl/en/sustainability-labels/.
[30] https://paca.u2p-france.fr/optimisez-la-performance-durable-de-votre-entreprise#:~:text=Le%20Parcours%20Performant%20et%20Responsable%20en%20Paca%20en%20quelques%20mots,DREAL)%20et%20l'ADEME.

6. International initiatives supporting SME sustainability disclosure

International organizations and standard-setting bodies have also led global efforts and partnerships to provide SMEs with practical tools and capacity-building support to successfully implement international standards.

UNCTAD Core Indicators for Sustainability and SDG Impact Reporting

UNCTAD, through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), is supporting country efforts to build institutional, regulatory and human capacity to implement international standards such as the ISSB. UNCTAD and the ISAR are also in dialogue with the ISSB to ensure that the needs of developing countries are taken into consideration in the development of new standards. Since the third quarter of 2023, UNCTAD has been implementing a pilot capacity-building project aimed at assisting developing countries with the implementation of climate disclosure standards, with financial support from the German International Climate Initiative and the Gesellschaft für Internationale Zusammenarbeit – GIZ, the German development agency.

Building on best practices and lessons learned from sustainability reporting across various jurisdictions, UNCTAD has released the Guidance on Core Indicators for Entity Reporting on the Contribution Towards Implementation of the Sustainable Development Goals (GCI for short), along with a training manual to assist SMEs in sustainability disclosure. The GCI introduces a simplified set of 34 sustainability indicators, aligned with leading international standards that encompass economic, environmental, social, and institutional domains. These indicators serve as a starting point for SMEs on their path towards sustainability and SDG reporting.

To maximize progress in, and support of developing countries, UNCTAD created regional partnerships for the promotion of sustainability and SDG reporting in Africa (50 members from 26 countries) and Latin America (29 members from 14 countries) and is working to establish two more partnerships in Asia and the Middle East. These partnerships serve as a vehicle for facilitating the exchange of best practices in the implementation of sustainability reporting standards. They enable consultations among peers, help to identify technical assistance needs, and provide a regional voice in interactions with international standards setters.

UNCTAD has also been working with the Government of Colombia to create a digital carbon registry platform. Firms will be able to register their carbon emissions and deductions online, using a built-in emissions calculator based on IPCC standards. Based on their emissions or deductions they will be able to access certain incentives and ultimately be certified for carbon markets and schemes such as the EU's Carbon Border Adjustment Mechanism. As a result, the government will have a more accurate measurement of carbon reductions which it will be able to use in reporting progress on its nationally determined contributions.

ISSB partnership framework on capacity building

At the 2022 United Nations Climate Conference (COP27), the ISSB launched a partnership framework for capacity-building that was supported by public and private organizations worldwide. Achieving a truly global baseline necessitates a focus on supporting implementation across all economic settings, and the particular circumstances of emerging and developing economies, as well as smaller entities, many of which operate within global value chains.[31] UNCTAD has joined this initiative and is collaborating with ISSB to build capacity for sustainability reporting for developing economies, including their SMEs.

[31] https://www.ifrs.org/news-and-events/news/2022/11/issb-cop27-progress-implementation-climate-related-disclosure-standards-in-2023/.

GRI Corporate Sustainability and Reporting for Competitive Business (CSRCB) programme

The CSRCB programme is a collaboration between GRI and the Swiss State Secretariat for Economic Affairs (SECO), aimed at enhancing the integration of SMEs in global value chains. From 2016 to 2021, the programme focused on developing SMEs' capacity for sustainability reporting in six countries: Colombia, Ghana, Indonesia, Peru, South Africa, and Vietnam. The program trained over 2500 SME participants, launched a digital reporting platform for SMEs, and engaged over 2000 data users to leverage sustainability data.[32]

[32] https://www.globalreporting.org/public-policy-partnerships/strategic-partners-programs/corporate-sustainability-and-reporting-for-competitive-business/.

IV. Challenges for SME sustainability disclosure and policymaking

A review of country practices reveals that policymaking on SME sustainability disclosure has been sporadic. With the exception of the EU, systematic efforts to create an enabling policy environment remain largely absent. As a result, mandatory sustainability disclosure has been primarily targeted at larger entities, while disclosure efforts for SMEs have thus far been driven by market trends and indirect reporting requirements. A consequence of the neglect of SMEs in sustainability disclosure policymaking is that SMEs may not fully grasp the strategic value of sustainability reporting. This includes a lack of awareness of risks and opportunities for SMEs regarding sustainability disclosure, including material risks, and opportunities for access to global supply chains and sustainable financial products. Additionally, without clear guidance at both national and international levels, SMEs have been left to grapple with the complicated and fragmented international standards on their own, and now face mounting obstacles in meeting market requirements.

As global policymaking efforts on SME sustainability disclosure continue to lag behind those for larger entities, policymakers and regulators currently face several challenges regulating SME sustainability disclosure, particularly in developing and emerging economies. These challenges include: the fragmentation and inconsistency in international standards; the lack of adequate national sustainability reporting infrastructure; insufficient knowledge and human capacity; and the lack of access to sustainability data for SMEs.

1. Consistency and interoperability among international standards

Despite the progressive convergence between the ISSB and the GRI standards and increasing efforts to align national standards with global baselines, interoperability and consistency in standards remain an issue. Each of the leading international standards has unique assurance and connectivity features, reflecting different priorities and approaches to integrating sustainability into company reporting (see annexes 1 and 2 for a comparison of the leading standards).

When aligning with the ISSB or the GRI standards, countries can also take different approaches. They can choose to use a building blocks approach (see chapter II) and implement ISSB requirements as a baseline, together with additional national requirements that satisfy local needs. As a result, despite efforts to align with the ISSB or GRI standards, sustainability requirements may continue to vary significantly across different jurisdictions. As such, companies need to prepare information in compliance with regulations in the markets where they are listed or have material operations. For example, an estimated 3,000 US companies will have to comply with the reporting standards of the CSRD if they want to continue operating within the EU.[33]

For SME sustainability disclosure, the interoperability and consistency challenges are more acute. The very different definitions of SMEs across jurisdictions further complicate matters. For example, in the EU a medium enterprise is defined as an enterprise that does not exceed two of three criteria: €20 million in total balance sheet assets, €40 million in net turnover, and 250 employees.[34] In Australia, the Australian Bureau of Statistics considers any business with under 200 employees to be a medium-sized enterprise, and any with under 20 employees to be a small-sized enterprise. The Australian Tax Office classifies businesses with an annual turnover of $10 million or less as small or micro enterprises, and those with a turnover of between $10 million and $250 million as medium-sized enterprises.[35] Given

[33] https://www.corporatedisclosures.org/content/top-stories/could-europe-be-issbs-best-friend-in-the-us.html
[34] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FVSME%2520ED%2520January%25202024.pdf.
[35] https://www.ondeck.com.au/blog/business-operation/sme-meaning-and-importance-in-australia/

these different definitions, variations in the size and capacity of these entities could pose complications for both regulators and SMEs. The inconsistency in standards is also apparent when considering that SMEs that supply multinational companies located in different regions may have to follow different reporting requirements in several jurisdictions.

2. Creating a sound national sustainability reporting infrastructure

Except for the EU,[36] the inclusion of SMEs in sustainable finance policymaking has been inconsistent. It has also potentially led to a lack of commitment and investment in this area of policymaking.

With the absence of a global baseline for SME sustainability reporting, SMEs are often left in limbo with regard to what and how they should be disclosing sustainability information. Meanwhile, the historical omission of SMEs in sustainable finance policymaking has created a greater need for resources and capacity to help SMEs keep up with proliferating sustainability reporting areas.

Therefore, when embarking on the sustainability reporting journey, countries may face difficulties creating a national sustainability reporting infrastructure that can keep pace with the rapidly evolving global sustainability reporting landscape. While a strong financial reporting infrastructure can help facilitate the establishment of a sustainability reporting architecture, some countries with weak financial reporting infrastructures may find it more difficult to add sustainability elements.

National capacities may also be characterized by poor coordination among key institutions. Fostering collaboration among all stakeholders, including key public and private sector institutions and civil society, is key in creating a national sustainability disclosure infrastructure.

3. Strengthening knowledge and human capacity

The existence of standards and regulations in and of itself is not enough to improve sustainability disclosure: implementation is key and requires addressing knowledge and capacity gaps among key players in the sustainability reporting value chain, as well as promoting standards that are proportional to SME capacities.

Human capacity limitations in sustainable finance are a significant challenge for developing countries. Sustainability disclosure and the preparation of sustainability reports encompasses many actors, including preparers, regulators, auditors, academics and trainers, all of whom need to embrace a long-term learning commitment to deal with a continuously growing set of standards, including international sustainability standards in different areas and for different entities. These include: the International Auditing and Assurance Standards Board (assurance standards for sustainability reports); International Code of Ethics for Professional Accountants (ethics and independence standards for sustainability reporting and assurance); International Public Sector Accounting Standards Board (sustainability reporting standards for the public sector); and ISSB standards. Countries that need to quickly build capacity can leverage collaborations between professional accountancy organizations and universities to provide sustainability reporting curriculum covering latest developments in the disclosure landscape.

4. Improving access to sustainability data

Another major challenge relates to the significant changes resulting from new international requirements. As the ISSB standards continue to develop, companies will need to supplement sustainability reports to cover environmental, social and governance-related issues related to biodiversity, waste, water use, labour rights, human rights, corporate governance and anti-corruption activities. This will create additional burdens for SMEs and the need for a broader set of sustainability

[36] For example, EFRAG has established a cluster organization (Cluster 8) that is working on sustainability standards that would take into consideration the needs as well as the reporting capabilities and resources of SMEs.

metrics and data.

In some cases, SMEs are also required to report on industry-based metrics, such as those based on the Sustainability Accounting Standards Board standards.

Many countries lack the necessary infrastructure to issue publicly available and reliable data on sustainability, particularly information relating to climate change. Without such information, the reporting provided by companies on climate-related risks and opportunities will fail to meet thresholds for high quality disclosure.

It is therefore essential for national governments to start strengthening as early as possible the national infrastructure to produce publicly available and reliable data on sustainability. Moreover, the lack of reliable and comparable information on environmental, social and governance-related issues can hinder the mobilization of funds for investment in Sustainable Development Goals-related areas.

V. Policy options for further discussion

The challenges facing policymakers on SME sustainability disclosure are multidimensional and have profound implications for sustainable development and the green transition. Thus, policy responses need to adopt a holistic approach which sets a clear vision and agenda to engage all stakeholders. Ultimately, the creation of an enabling ecosystem to support SMEs on their sustainability journey requires their specific needs to be taken into full consideration to ensure the robustness of policy frameworks.

For this purpose, policy responses may be guided by four principles: (i) *integration* (incorporating SME sustainability disclosure into a holistic approach to sustainable finance and as part of the national development strategy); (ii) *proportionality* (defining and sequencing the scope of implementation for SMEs relative to MNEs, while considering the country context); (iii) *engagement* (involving all stakeholders along the supply and investment chains to create an enabling ecosystem); and (iv) *convergence* (aiming for a workable global sustainability disclosure baseline applicable to all countries and entities).

Below are some policy recommendations guided by these principles.

1. Integrate SME sustainability disclosure into the national sustainable development strategy and sustainable finance framework

SMEs play a crucial role in driving economic growth and social development and are also responsible for a significant portion of carbon emissions and other sustainability challenges. Supporting SMEs to adopt more sustainable business models, including through sustainability reporting, should be integrated as a key element into national development strategies and national sustainable finance frameworks.

Based on best practices, a national action plan on SME sustainability disclosure can be a starting point to set clear guidelines, regulatory priorities, and timelines for action for SMEs and other stakeholders. It can also clarify institutional setup and strategy for the key components of a SME national sustainability disclosure infrastructure.

As the cornerstone of a national policy framework, national standards, aligned with international standards and proportionate to the capacity of SMEs, need to be developed to clarify the reporting requirements, and provide rules to determine material topics and metrics for SME reporting.

It is also crucial to ensure coherence between policies on SME sustainability integration with sustainable finance, trade and industrial policies to ensure that SMEs benefit from trade, finance opportunities, and green technologies.

2. Ensure proportionality while guaranteeing disclosure quality

Guided by the principle of proportionality, the design and implementation of SME reporting standards should take into account the national development contexts of countries and the needs, capacities, and resource constraints of SMEs in those jurisdictions. To ensure necessary alignment with international standards while taking specific country context into consideration, the building blocks approach as discussed earlier (see chapter IV) could be a practical option. Accordingly, standards should be simplified and phased-in over an agreed timeline that gives SMEs the opportunity to plan and scale up their reporting capacities. Given the variance among SMEs, disclosure requirements should take into account the different capacities and resources for micro, small and medium-sized companies.

However, the necessary robustness of sustainability disclosure cannot be sacrificed. Towards this end, clear definitions of key terms such as materiality, and realistic metrics, are crucial, and necessary alignment with international standards, in particular the ISSB standard, will be indispensable. In this respect, a G20 high-level set of principles and consensus on materiality and core indicators for SME sustainability disclosure could serve as global benchmarks for policymaking and be helpful in ensuring policy robustness and coherence across sectors and countries. The core SDG indicators, which UNCTAD has developed and tested in developing countries, could be a useful tool to inform policymaking at national and international levels.

In addition, external assurance should be mandated to ensure the quality, reliability, and comparability of sustainability reporting. A proportional and phased approach to assurance requirements for SMEs can allow appropriate time for implementation. Besides compliance, the most important benefits of assurance can be increased stakeholder confidence, process improvements, reputation enhancement, and greater access to finance. The International Auditing and Assurance Standards Board (IAASB) has developed an umbrella set of standards for assurance of non-financial information, which can be adapted to serve the needs of SMEs.

3. Create an enabling ecosystem by engaging all stakeholders

Given the multidimensional nature of sustainability reporting, it is critical to involve and promote collaboration among key institutions in the public and private sectors as well as civil society from the outset. For instance, the responsibilities of regulators should be expanded to encompass sustainability reporting; similarly, audit and assurance requirements should be extended from financial to sustainability disclosures, among other elements. If such elements are not currently in place, countries will need to develop them.

Furthermore, it is essential to engage all stakeholders along supply and investment chains to build consensus, harmonize relevant requirements, and create an ecosystem that facilitates sustainability disclosure by SMEs. In particular, ensuring that sustainability leaders among SMEs have better access to supply chain and finance opportunities can incentivize SMEs to enhance their disclosure and implementation of sustainability reporting standards.

Towards this end, it is also important to engage financial institutions and encourage them to develop sustainable financial products that target SMEs and serve their specific needs. UNCTAD's Sustainable Investment Programme has been providing capacity building to institutional investors, such as development banks and sovereign and public investors, on sustainability integration, including the development of sustainable financial products for SMEs and support for SME sustainability reporting.

4. Increase technical support

Lack of required knowledge and human capacity is one of the largest challenges faced by SMEs. It is essential to provide capacity building not only for SMEs, but also for government agencies and other stakeholders, including public lenders and investors, to meet sustainability reporting challenges. For countries with a weak company reporting infrastructure, international support for capacity building will be necessary.

Given the limited data-gathering capacities of many SMEs, there is a critical need for systematic data infrastructure to enable SMEs' access to accurate data. In order to incentivize sustainability disclosure by SMEs, it is important to build affordable and user-friendly tools to help SMEs collect and report on their sustainability data at lower costs. Creating open-source sustainability databases, focusing on sectoral and thematic data that interact with existing data repositories when available, can be a useful tool to ensure easy data access for SMEs, and enable a seamless flow of data to businesses, financial institutions, service providers and other stakeholders. Digital reporting platforms that automate data collection and reporting processes can also make it easier and less time-consuming for SMEs to produce reports. In addition, user friendly digital reporting platforms, such as UNCTAD’s carbon emission registry platform in Columbia, can also facilitate reporting by SMEs (see section III.4).

Countries such as Singapore and Switzerland have rolled out programmes to test similar ideas. The G20 can consider utilizing pilot projects in developing countries to facilitate the exchange of best practices in leveraging digital technology to enhance sustainability data availability and sustainability reporting.

5. Promote further convergence in international standards

The G20 can support the strengthening of international coordination to promote further convergence in international standards. This could include the adoption of the ISSB standard as a global benchmark on sustainability disclosure, and facilitating harmonization with other international standards and regulations, such as the GRI and the EU standards. Further coordination at the regional level could also be helpful for implementing standards, especially in countries with lower capacities.

In addition, technical support to developing countries on the adoption of international standards is much needed to promote harmonization of standards across countries and regions. UNCTAD, through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), has been supporting developing economies in reinforcing their regulations and institutional capacity in sustainability reporting, with the support of its members (including G20 members such as Brazil, China, India, Germany, Italy, Mexico, Russian Federation, South Africa, Saudi Arabia, Türkiye, the United Kingdom and the United States). ISAR can serve as a useful platform to facilitate consensus building and exchange of best practices on sustainability reporting, focusing on the needs of developing economies.

Annex 1. Comparison of EU LSME and NLSME sustainability disclosure standards with selected international standards, 2024

	ESRS	ESRS NLSME	ESRS LSME	ISSB (S1 & S2)	GRI
Type of Standard	Sustainability reporting standards under the EU CSRD	Voluntary sustainability reporting standards for unlisted SMEs in the EU	Mandatory sustainability reporting standards for listed SMEs in the EU	Global baseline for disclosure of sustainability and climate-related financial Information	Global baseline for sustainability reporting standards
Target Users	Investors, creditors, and other stakeholders (government, business partners, suppliers, customers etc.)	Investors, creditors, and other stakeholders (government, business partners, suppliers, customers etc.)	Investors, creditors, and other stakeholders (government, business partners, suppliers, customers etc.)	Focused on needs of investors and creditors	Focused on needs of company entities
Reporting Entity	Large undertakings and public-interest entities	Unlisted micro-, small-, and medium-sized undertakings	Listed micro-, small-, and medium-sized undertakings	Public and private sector entities	Public and private sector entities
Effective Date	January 1, 2024	N/A	January 1, 2026	January 1, 2024	January 1, 2023
Materiality Approach	Double materiality	Double materiality	Double materiality	Financial materiality	Double materiality
Disclosure Areas	- General sustainability disclosure requirements - Climate & environment - Social - Governance - Risk management	- General sustainability disclosure requirements - Climate & environment - Social - Governance - Risk management	- General sustainability disclosure requirements - Climate & environment - Social - Governance - Risk management	- General requirements on sustainability disclosures (S1) - climate-related issues (S2)	- General sustainability disclosure requirements, - Climate & environment - Social - Governance - Risk management
Verifiability	Gradual approach: from limited assurance to reasonable assurance	Verifiability included as one of the characteristics of disclosure, but standards do not mention assurance directly	Verifiability included as one of the characteristics of disclosure, but standards do not mention assurance directly	Verifiability included as one of the characteristics of disclosure, but standards do not mention assurance directly.	Verifiability included as one of the characteristics of disclosure, but external assurance not mandatory
Alignment with Global Standards	GRI, SASB, IASB, TCFD	ESRS, GRI, SASB, TCFD.	ESRS, GRI, SASB, TCFD.	GRI, ESRS, TCFD, SASB	SDGs, TCFD, ISO standards

Source: UNCTAD.

Annex 2. Disclosure areas and key indicators, selected standards, 2024

	SME Sustainability Disclosure Standards			International Sustainability Disclosure Standards		
	ESRS SME	**ESRS LSME**	**Malaysia SDEG**	**EU ESRS**	**ISSB S1 & S2**	**GRI**
General disclosure (strategies, policies)	Practices for transitioning towards a more sustainable economy Significant markets in which the undertaking operates Main business relationships	Strategy, business model and value chain Role of the administrative, management and advisory bodies Interests and views of stakeholders		Integration of sustainability-related performance in incentive schemes The role of the administrative, management and supervisory bodies Policies adopted to manage material sustainability matters	Sustainability related risks and opportunities, business model and value chain, financial position, performance and cash flows, resilience (S1). Climate related risks and opportunities, business model and value chain, strategy and decision making, climate resilience (S2)	Approach to sustainability, ethics, and integrity policy and practice for seeking external assurance Describe value chain and report other relevant business relationships
Climate & environment	Total energy consumption breakdown (fossil fuels, electricity), Scope 1 and 2 GHG emissions and reduction targets, Pollution of air, water and soil	Gross scopes 1,2,3 and total GHG emissions, energy consumption and mix (fossil energy, nuclear sources, renewable sources etc.) Pollution of air, water and soil, water consumption	Consumption of renewable/non - renewable fuel sources Total water and waste consumption, in metric tons	Internal carbon pricing GHG removals and GHG mitigation projects financed through carbon credits Policies related to pollution, waste management tracking	GHG emissions, climate related transition and physical risks, capital deployment, internal carbon prices etc. (S2)	Report on scope 1,2 and 3 GHG emissions Report the percentage of capital expenditure allocated to investments in renewable energy Total weight of waste generated in metric tons Total water consumption from all areas in megalitres
Social	Gender pay gap (in per cent) Collective bargaining coverage Number of recordable work-related accidents	Collective bargaining coverage Qualitative disclosures on human rights issues and incidents Renumeration metrics (e.g pay gap)	Number and nature of child/forced labour incidents Total amount of community investments and donations Percentage of company's employees	Identification, assessment, management and/or remediation of material impacts on affected communities Engagement with value chain workers Collective bargaining		Stakeholder engagement (e.g., approach to stakeholder engagement, key topics, and concerns raised) Occupational health and safety management system

		Diversity metrics	by gender	coverage and social dialogue Adequate wages Diversity metrics		Ratio of basic salary and renumeration of women to men Diversity of governance bodies and employees
Governance	Total number of convictions and number of fines incurred for violating anti-corruption and anti-bribery laws. Revenues from certain sectors (e.g. tobacco, fossil fuels, chemicals etc.).	Fines for violations of anti-corruption and bribery laws Political influence and lobbying activities Management of relationships with suppliers	Company policies (code of conduct, anti-corruption, whistleblowing etc.) Number and nature of confirmed corruption incidents Year of last submitted audited financial report	Corporate culture and business conduct policies Prevention and detection of corruption/bribery Political influence and lobbying activities,	Information about the governance processes, controls, and bodies an entity uses to monitor and manage sustainability-related risks and opportunities on entities business model, value chain, and financial position (S1 and S2)	Governance structure, composition, etc.
Risk management	Policies and/or actions to anticipate physical risks from climate change	Material impacts, risks and opportunities and their interaction with strategy and business model Processes to identify and assess material impacts and risks	Regulatory compliance and business continuity risk of company operations and activities Climate related physical and transition risks of the company	Qualitative factors, quantitative thresholds and other criteria used to assess sustainability related risks and opportunities Types of risk assessment tools used	Processes to identify, asses, prioritise and monitor sustainability related risks and opportunities, whether scenario analysis is used, how the entity prioritises sustainability related risks relative to other types of risk etc. (S1) How climate related risks are monitored, climate related scenario analysis etc. (S2)	Frequency of risk assessments and a summary of the most recent risk assessment findings Report the internal carbon-pricing and oil and gas pricing assumptions that have informed the identification of risks and opportunities due to climate change Report the approach to tax risks, including how risks are identified, managed, and monitored

Source: UNCTAD