ICC

Unlocking sustainable finance for SMEs

The $789 billion green growth opportunity

Sage

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Foreword by Steve Hare

CEO of Sage

As we come together for COP29, the urgency of tackling the climate crisis has never been more pressing or clear.

Small and Medium Enterprises (SMEs) form the backbone of economies across the globe. They are not only critical drivers of local economies but are also uniquely positioned to shape change in our collective journey toward net-zero. Yet, these essential businesses face a significant challenge: securing the resources necessary for meaningful climate action.

At Sage, we're committed to removing the barriers SMEs face and driving the innovations that will enable their success in a green economy. This report underscores our shared vision of empowering SMEs to lead as climate champions. While the findings in this report reveal both the ambition of SMEs and the obstacles they encounter, they also present a clear call to action—for policymakers, financial institutions, tech providers, and indeed, all of us who are invested in a sustainable future.

Bridging the gap between the climate goals of SMEs and their access to crucial resources is essential if we are to meet the Paris Agreement's 1.5°C target. Accelerating progress requires collaboration at all levels, and we must come together to build an ecosystem where governments, financial institutions, and technology partners work in harmony. By doing so, we can deliver accessible financing, streamlined reporting standards, and digital tools that are intuitive and readily implemented.

Encouragingly, policy momentum is growing. The EU's consultation on SME-specific reporting standards, paired with this year's COP emphasis on the importance of SMEs, signals a shift in recognising their role. Support from the UN Climate Change High-Level Champion further strengthens this push, highlighting the importance of collective action.

Creating this ecosystem will unlock a powerful cycle: with simplified reporting and accessible financing, SMEs will gain the resources they need to lead, attracting further investment and amplifying their impact. In turn, these efforts will ripple across economies.

Sage will continue to champion these critical initiatives. We will work in partnership with businesses, financial institutions, and policymakers alike to unlock the full potential of SMEs. Together, we hold both the opportunity—and the responsibility—to enable SMEs to lead on climate action and shape a more sustainable future for us all.

Foreword by John Denton AO

Secretary General of the International Chamber of Commerce

The International Chamber of Commerce (ICC) is proud to continue its longstanding partnership with Sage, a collaboration that has consistently brought the voice of SMEs to the forefront of official climate negotiations. This work is essential in shaping a sustainable future for businesses worldwide.

SMEs are the backbone of the global economy, accounting for 90% of businesses and contributing significantly to employment and economic growth. However, these vital enterprises often face unique challenges in accessing the resources, knowledge, and financing needed to effectively measure, manage, and report on their sustainability performance.

ICC continues to take bold action to ensure that SMEs worldwide have the support and assistance needed to succeed in today's rapidly changing global economy. We offer a range of tools and services to SMEs hosted on the ICC One Click platform – a resource that we are committed to expanding to address some of the challenges set out in this report.

ICC warmly welcomes this report's timely and actionable insights into the barriers SMEs face in taking climate action and the potential solutions to overcome these obstacles. which aligns squarely with our strategic aim to unlock the full power of the private sector to accelerate the transition to a net-zero economy. The concept of the "virtuous circle," connecting sustainability reporting, sustainable finance, and enhanced climate action, offers a powerful framework for understanding and addressing the needs of SMEs in the transition to a low-carbon and climate-resilient economy.

We strongly support the report's call for simplified, standardised sustainability reporting frameworks tailored to the needs and capacities of SMEs. Equally important is the development of accessible, affordable digital tools to streamline the reporting process. These measures are crucial in enabling SMEs to participate fully in the global sustainability movement.

Improving SMEs' access to sustainable finance is crucial for enabling their transition to more sustainable practices. The ICC recognises the pivotal role of financial institutions in this process and is committed to drive the development of innovative financial solutions tailored to SMEs' unique needs, as part of our broader work on sustainable trade and sustainable trade finance.

ICC is committed to working with its global network to advocate for the effective implementation of the recommendations outlined in this report. Our goal is to create an enabling environment for SMEs to fully contribute to the achievement of the Paris Agreement goals and the Sustainable Development Goals.

By unlocking the potential of SMEs to take ambitious climate action, we can accelerate the transition to a more sustainable, resilient, and inclusive global economy. This report provides a roadmap for that journey, and ICC is proud to support its vision and recommendations.

Foreword by Nigar Arpadarai

The UN Climate Change High-Level Champion for COP29

As we gather in Baku for COP29, the urgency of our climate crisis has never been more apparent. Azerbaijan, as the host nation, has set an ambitious agenda that recognises the critical role of SMEs in our global fight against climate change. This report couldn't be more timely or relevant to our discussions.

Azerbaijan's commitment to fostering a green economy aligns perfectly with the report's focus on empowering SMEs to take climate action. Our nation has embarked on an ambitious journey to diversify its economy and reduce its dependence on fossil fuels, with SMEs playing a pivotal role in this transition.

The concept of the "virtuous circle" introduced in this report – connecting sustainability reporting, sustainable finance, and enhanced climate action – resonates strongly with our vision for COP29. We believe that by unlocking this circle, we can unleash the immense potential of SMEs to drive innovation and contribute to a sustainable future.

Azerbaijan's recent initiatives, including the establishment of the Small and Medium Business Development Agency and the introduction of green financing mechanisms, demonstrate our commitment to this cause. However, we recognise that more needs to be done, and this report provides a clear roadmap for further action.

The challenges faced by SMEs in accessing sustainable finance and implementing climate action are not unique to any one country. They represent a global challenge that requires a coordinated global response. As the High-Level Political Champion for COP29, I am committed to ensuring that the needs and potential of SMEs are at the forefront of our discussions and decisions.

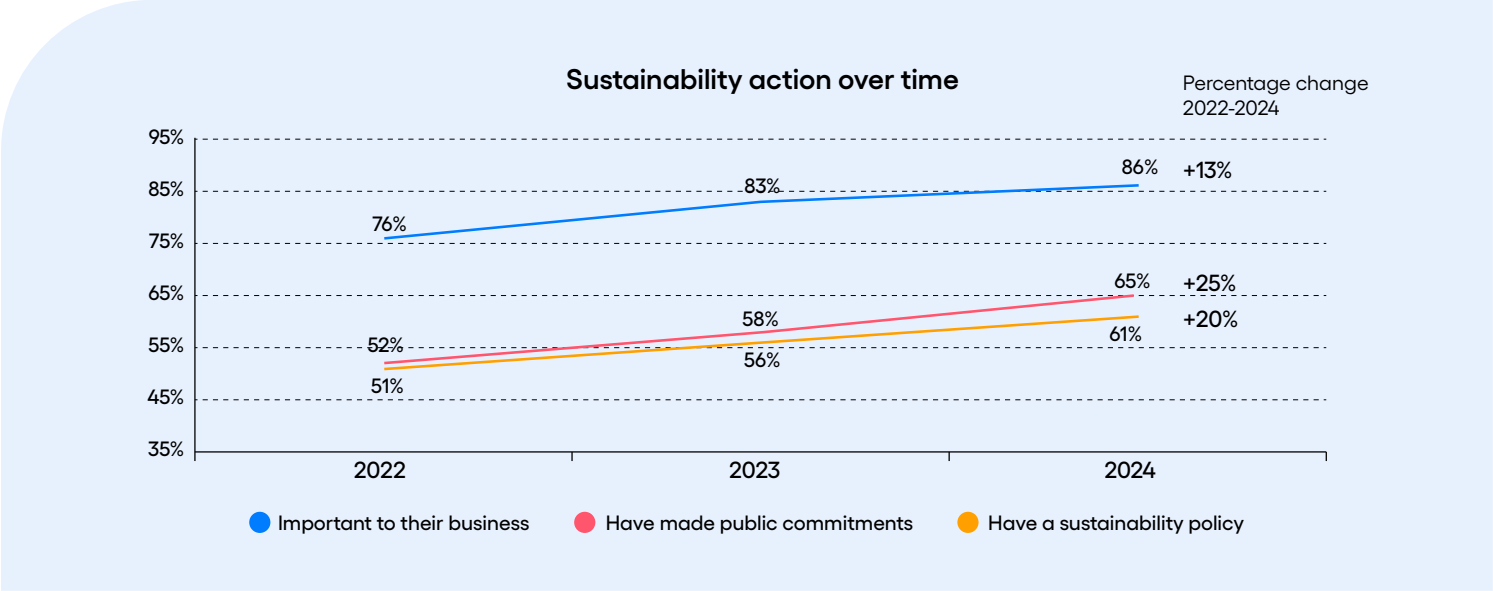
We must work together to simplify sustainability reporting for SMEs, increase their access to green finance, and provide them with the tools and knowledge they need to take meaningful climate action. By doing so, we not only support these vital businesses but also accelerate our progress towards our climate goals.

Section 1.
Executive summary

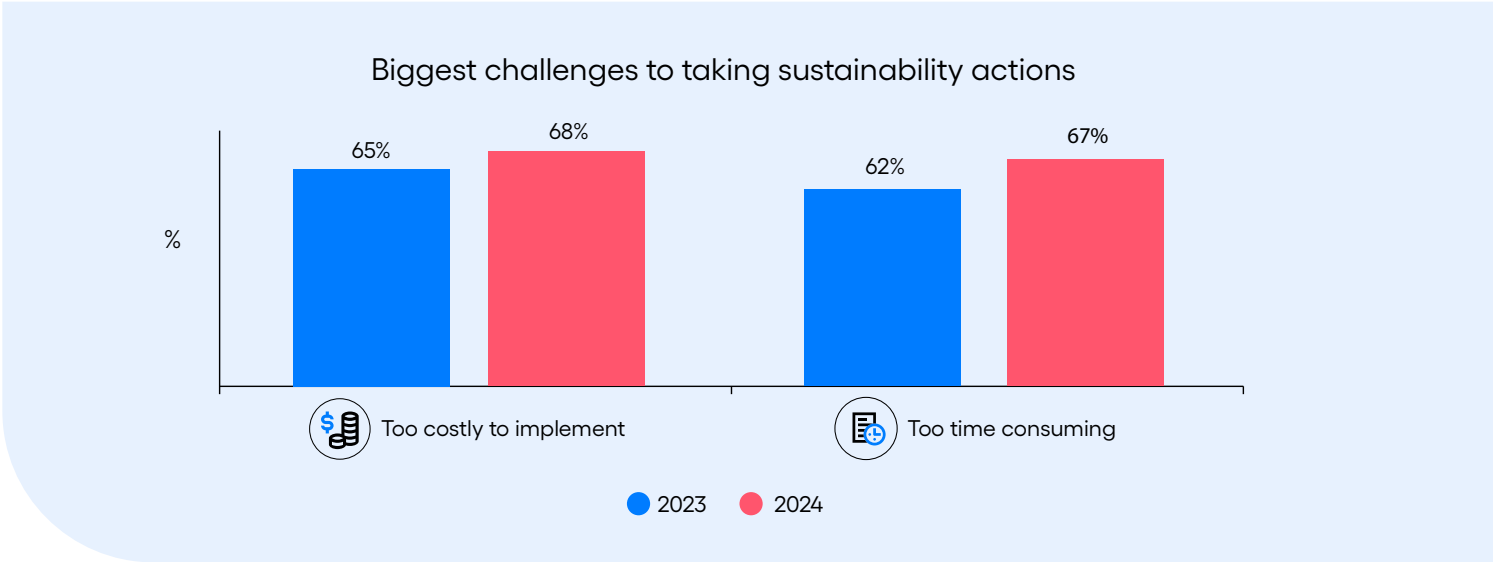
Small and Medium-sized Enterprises (SMEs) are at the heart of our economies and societies and play a crucial role in achieving global climate goals. They represent over 90% of businesses and 50% of greenhouse gas emissions globally.[2]

Our research shows a growing paradox: while more SMEs recognise the importance of climate action, the barriers to taking effective action are also increasing. This widening gap demands urgent attention.

Our data shows strong growth year-on-year in engagement with sustainability issues



Yet, more SMEs report that the two biggest challenges to taking actions – cost and complexity – have risen



The challenge: the need to take climate action is intensifying, with more SMEs reporting that they have been directly impacted by climate change. **70% report experiencing direct effects on their business in the past year.** These impacts include supply chain disruptions (39%), damage to assets or property (25%), and loss of productivity (24%).

The 'Green Growth' opportunity for SMEs to take climate action is also substantial and rapidly growing

Globally, **$30.3 trillion** trillion is invested in sustainable investing assets, representing a massive pool of capital available for climate initiatives.[3] In non-US markets, it is growing especially fast, having increased by 20% since 2020. Importantly, much of this total is becoming accessible to SMEs, opening up new avenues for funding their sustainability efforts through green loans, sustainability-linked loans, green bonds, and specialised credit lines for energy-efficient equipment or renewable energy projects.[3]

A landmark OECD study *Financing SMEs for Sustainability* (2023)[4] reveals that 73% of public and private financial institutions now offer green or sustainable finance options specifically tailored for SMEs. Our previous research[5] has estimated the **green finance opportunity for SMEs at $789 billion**, representing a substantial incentive for climate action. Furthermore, many of these products come with preferential terms, such as lower interest rates or more flexible repayment options, making them particularly attractive for SMEs looking to invest in sustainability.

Environmental, Social, and Governance (ESG) and climate factors are pivotal in how banks and financial institutions make their lending and investment decisions. Over 60% consider climate implications when developing strategies and business plans, and nearly half set climate-related criteria for their suppliers. Over 75% of public and 60% of private institutions also assess the climate-related impacts of some or all of their financing/investment decisions.[12]

WOOLCOOL Driving growth through sustainability

Woolcool, a pioneering Staffordshire-based company employing 14 people, is revolutionising the insulated packaging industry with its eco-friendly wool solutions. Under the leadership of Managing Director Josie Morris, who was awarded an MBE for her contributions to manufacturing and the environment, Woolcool has placed sustainability at the heart of its business model, driving impressive growth and garnering prestigious accolades such as B Corp certification and The Queen's Award for Enterprise in Sustainable Development.

Woolcool's commitment to environmental stewardship has been a catalyst for its success, attracting environmentally conscious customers and propelling the company to the forefront of the packaging market. However, as Woolcool seeks to further expand its positive impact through investments in renewable energy, enhanced recycling processes, and innovative materials, it recognises the need for tailored green finance solutions to support its ambitious goals.

While Woolcool has successfully secured some funding through traditional channels, Morris believes that access to specialised green finance options would accelerate their sustainability journey and enable them to make an even greater impact. The company actively seeks support in the form of simplified reporting standards, sustainability-linked loans, and expert guidance to navigate the green finance landscape and unlock the capital needed to drive transformative climate action.

Despite the widespread availability of green finance products, offered by 73% of financial institutions, our study suggests that only 2.8% of SMEs have applied for green finance in the past three years. This significant gap highlights the immense potential for growth in SME uptake of these sustainable finance options.

About our analysis of the green finance opportunity: With the right support and simplified reporting processes, SMEs could unlock a $789 billion green finance opportunity, based on economic analysis conducted by NatWest applied to Sage survey data. Sage's 2023 study[6] found that these improvements could triple the number of SMEs reporting on sustainability - from 7.7% to 23.1%, representing an additional 51 million businesses globally.

The key to unlocking this opportunity: the 'virtuous circle'

Our study, building on three years of tracking SME climate action and sentiment, reveals a powerful mechanism to encourage climate action: a 'virtuous circle' that connects sustainability reporting, sustainable finance, and enhanced climate action for SMEs worldwide. This circle represents a practical pathway to accelerate SME involvement in addressing climate change when we see:

- **Widespread sustainability reporting:** SMEs measure and report their environmental impact, gaining insights into their operations, carbon footprint, and areas for emissions reduction.
- **Increased sustainable finance for SMEs:** Improved reporting enhances SMEs' credibility with investors and lenders, increasing access to green financing options.
- **Enhanced climate action:** With better access to finance, SMEs can implement more substantial sustainable practices, such as investing in energy-efficient equipment or developing low-carbon products and services.

Currently, our survey suggests that only 1.2% of SMEs are fully engaged in this virtuous circle.

However, it also shows that SMEs with access to sustainable finance are 2.5 times more likely to implement significant sustainability initiatives, and those with comprehensive sustainability reports are 1.5 times more likely to be successful in securing financing.

To accelerate SME climate action, we must unlock this virtuous circle. This report provides actionable recommendations for policymakers, financial institutions, and technology providers to support SMEs, focusing on streamlined reporting, improved access to finance, and enabling action through digital tools. By harnessing this mechanism, we not only drive sustainability efforts but also boost SMEs' financial health and resilience, creating a win-win scenario for businesses and the environment.

This virtuous circle represents a self-reinforcing cycle generating positive change:

1. Sustainability reporting:

- SMEs begin by measuring and reporting their environmental impact.
- This process provides clear insights into where they can reduce emissions, improve resilience, and become more efficient.
- As SMEs take actions, they can monitor changes over time and report on their successes to external stakeholders.

2. Sustainable finance:

- Improved and simplified reporting enhances SMEs' credibility with investors and lenders.[7]
- This leads to increased access to green financing options and sustainability-linked loans.
- Financial institutions can more confidently support SMEs' green initiatives, knowing their impact and progress is being tracked with reliable data.

3. Climate action:

- With better access to finance, SMEs can implement more substantial sustainable practices.
- This might include investing in energy-efficient equipment, adopting renewable energy sources, or developing low-carbon products and services.
- In turn, these actions can be successfully reported on, providing more comprehensive and transparent data for the next round of sustainability reporting.

Banks are now expected to measure and report the greenhouse gas emissions resulting from their investments and loans. This is called measuring their "financed emissions."[8]

To help with this, a new standard has been created: the Partnership for Carbon Accounting Financials (PCAF) Standard. This standard provides a consistent way for banks to:

- Measure their financed emissions
- Identify major sources of these emissions
- Set targets to reduce these emissions

To meet this standard and show progress in reducing their financed emissions, banks need accurate data from the companies they invest in or lend to. This data helps banks:

- Understand their current level of financed emissions
- Track changes in these emissions over time
- Demonstrate progress towards their emission reduction goals

As more attention is focused on climate change, banks are increasingly being evaluated on how well they measure and reduce their financed emissions using this standard.

RAYLO. Enabling the circular economy through green finance

Raylo, a pioneering UK-based company founded in 2018, is transforming the consumer electronics industry with its innovative "lease-and-reuse" model. By extending the life of smartphones, laptops, and tablets through refurbishment and recycling, Raylo is significantly reducing carbon emissions and pollution in a typically waste-heavy sector.

To support Raylo's growth ambitions and new product development, NatWest structured a refinancing of Raylo's Revolving Credit Facility. NatWest played a crucial role in assisting with the development of Raylo's Green Financing Framework and securing a positive rating from S&P Global Ratings, validating Raylo's circular business model and commitment to sustainability.

Richard Fulton, Co-founder and Chief Risk Officer at Raylo, credited the green loan from NatWest as a catalyst for formalising and enhancing the company's sustainability data and governance. The financing has enabled Raylo to offer more affordable prices to customers while expanding their relationship with NatWest.

Raylo's success story demonstrates the power of tailored green finance solutions in supporting SMEs' sustainability goals and driving the transition to a circular economy. By leveraging innovative financing structures, companies like Raylo can scale their impact and lead the way in making technology both accessible and sustainable.

This report offers targeted recommendations for policymakers to empower SMEs on their sustainability journey.

Our focus areas include:

1. Streamlining sustainability reporting processes
2. Enhancing access to sustainable finance
3. Enabling action through innovative digital tools

By leveraging this virtuous circle, we can simultaneously drive SME climate action and enhance their financial resilience. The result is a win-win: accelerated progress towards sustainability goals coupled with improved business performance for SMEs.

NatWest

Automation in action: NatWest Carbon Planner powered by Sage Earth

The NatWest Carbon Planner, powered by Sage Earth, is a free tailored solution designed to help UK businesses manage their future fuel and operational costs and reduce their carbon footprint more quickly. The financial services sector is stepping up to support SMEs, and NatWest's Carbon Planner is automating a key part of the process of calculating a company's greenhouse gas emissions.

The Carbon Planner processes data from a company's accounting software and matches transactions to emission factors to create an estimate of the climate impact of those purchases. The software then guides the business to refine their emissions estimate by submitting additional data, such as energy usage and employee commuting patterns.

In addition to cutting emissions, the platform has the potential to reduce inefficiencies, save time and money, and help businesses become more competitive. The NatWest Carbon Planner also provides information and useful resources to help businesses on their journey to net zero.

Available online to all UK businesses, not just NatWest customers, this example demonstrates how collaboration across sectors can make it possible for SMEs to reduce the burden of reporting through digital tools and automation, supporting them in their sustainability efforts while improving their overall business performance.

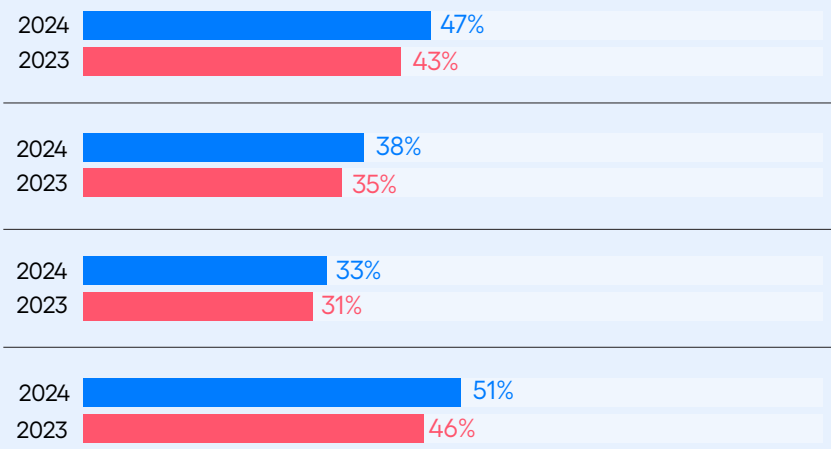
Section 2.
The challenge

2.1 SMEs are pivotal in the global fight against climate change, yet barriers to action are growing

SMEs are not just economic powerhouses, but also crucial agents in achieving global climate goals. Our research estimates that SMEs contribute to 44% of emissions in the UK, despite being clustered in less carbon-intensive industries.[9] Other studies have estimated that half of global carbon emissions are from SMEs underscoring the urgent need for their engagement in climate action.[10]

The urgency of SME climate action is clear. Our research shows that while interest in sustainability among SMEs is rising - 64% of SMEs have sustainability strategies, up from 59% in our 2023 report - concrete action is lagging behind.

Barriers to SME climate action are growing



Lack of finance cited by 47% of SMEs, up 4% from last year [43%]

Time constraints mentioned by 38%, a 3% increase from last year [35%]

Lack of knowledge reported by 33%, up 2% from last year [31%]

51% say the cost of green technology is too high, a 5% rise from the previous year [46%]

Section 3.
The virtuous circle: The key to driving SME climate action

The path to accelerating SME climate action lies in the 'virtuous circle' - an increasingly beneficial cycle of Sustainability Reporting, Sustainable Finance, and Climate Action. Each component of this circle is crucial, with progress in one area driving advancements in the others.

3.1 Sustainability reporting: The foundation

Sustainability reporting forms[11] the foundation of the virtuous circle, providing the transparency and data necessary to drive informed decision-making and attract sustainable finance.

According to our research, only 9.1% of SMEs have formal processes in place to measure, track, and report on their sustainability data, up from 8.6% last year.

This formal reporting is crucial, as it provides standardised, reliable data that can be used by financial institutions and policymakers to assess SMEs' sustainability performance and guide investment decisions.

The challenges in sustainability reporting are significant:

41% of SMEs cite lack of knowledge as a primary barrier

39% find the process too time-consuming

35% are deterred by the perceived cost

However, digital tools are making a positive difference. 51% of SMEs now use digital solutions to support their sustainability efforts, up 7% from last year. Of these, 41% report that these tools significantly ease the reporting process. SMEs using digital reporting tools are 5.1 times more likely to have formal reporting processes in place.

To strengthen this foundation, we need:

- Simplified, proportionate and standardised reporting frameworks which meet the needs of lenders but are tailored for SMEs
- Accessible education and training programmes on sustainability reporting and its benefits
- Incentives for the adoption of digital and automated reporting tools

The key to strengthen reporting: build data infrastructure that automates the transfer of data to support SMEs with environmental reporting

Create collaboration between government and industry leaders to support the development of robust and trusted data sources. This will enable companies, both large and small, to transition to report on actual data instead of using proxies and sector averages. This could include developing shared tools and datasets, establishing common and accessible data models, and leveraging existing data repositories.

3.2 Sustainable finance: The enabler

Access to sustainable finance is crucial for SMEs to take more climate action. Our study, building on data from the OECD Platform for Sustainable Finance on financial institutions, reveals a landscape of progress but also persistent challenges which require urgent action.

The main sources of finance for sustainability actions for SMEs are banks:

Sources of finance for SME sustainability actions

1. Traditonal bank loans (48%)
2. Government grants (35%)
3. Green bonds (15%)

Recent studies reveal that financial institutions are stepping up, including by offering preferential loans, tax incentives, and new markets for low-carbon products. According to the OECD survey of private and public lenders, 73% now provide green/sustainable finance to SMEs, offering not just funds but also valuable non-financial support such as workshops, training, and tools.[12] This growing commitment from banks is making a difference. Our data shows that more SMEs are seeking sustainability financing - 26% this year, up from 21% last year. And they're finding success, with 72% of those applications resulting in funding.

However, a 'data gap' continues to persist. The majority of SMEs are unable to meet reporting requirements. The OECD research makes it clear that a lack of data is a challenge for 80% of lenders in offering this kind of finance. Further, there's currently no common approach to data requests. This lack of standardisation creates a burden for SMEs, especially smaller ones with limited reporting capability and capacity. It's a clear blocker to SMEs benefitting from the growing finance opportunity: SMEs with sustainability reports are 1.5 times more likely to secure financing, but producing these reports without guidance or standards is a significant hurdle.

To bridge this gap and unlock the full potential of sustainable finance for SMEs, we need a three-pronged approach:

- Standardise data requests across financial institutions and supply chains
- Develop user-friendly and digital tools to help SMEs measure and report their sustainability data
- Raise awareness among SMEs about the importance of sustainability reporting for accessing finance

With the rapid growth of sustainability finance available to SMEs, the stakes are high. Bridging this data gap isn't just about improving access to finance - it's about empowering SMEs to drive the sustainability transition. With SMEs accounting for up to 50% of global emissions, their actions are crucial to meeting global climate goals. By solving this data challenge and enabling their access to finance, we can unleash a wave of sustainable innovation and transformation across the SME sector.

3.3 Climate action: The goal

The ultimate aim of the virtuous circle is to enable SMEs to take concrete climate action, contributing to the global transition to net zero. Our research shows that while many SMEs are beginning to take climate action, significant barriers remain

The most common actions taken by SMEs include:

Energy efficiency measures (55%)

Waste reduction and recycling programmes (50%)

Sustainable procurement (40%)

However, impactful actions like renewable energy adoption (30%) and sustainable transport (25%) lag behind, often constrained by financial barriers and lack of knowledge.

SMEs with access to sustainable finance are 2.5 times more likely to implement significant sustainability initiatives, underscoring the critical role of finance in enabling SME climate action.

The main barriers to action are:

Lack of finance (47%, up from 43% last year)

Time constraints (38%, a 3% increase)

Lack of knowledge (33%, up 2% from 2022)

To overcome these barriers and accelerate climate action among SMEs, a multi-faceted approach is needed. Drawing on insights from the OECD report on financing SMEs for sustainability, we recommend focusing on three key areas:

- **Financial support:** Expand the range of green and sustainable financing instruments for SMEs, including sustainability-linked and transition finance products. There is particular innovation possible in blended finance, combining public and private capital to de-risk investments, for instance in government guarantees on green loans to reduce interest rates.
- **Streamlined processes:** Develop easy-to-use digital tools and streamlined, proportionate and simplified data requirements to reduce reporting burdens on SMEs.
- **Capacity building:** Provide non-financial support such as workshops, consulting services, and training to help SMEs measure, report, and act on climate-related goals.

By addressing these core areas, we can create an ecosystem that empowers SMEs to actively participate in the transition to a sustainable economy while meeting the evolving needs of financial institutions and regulators.

Impactful insights to drive action: The OECD platform on financing SMEs for sustainability

The OECD Platform on Financing SMEs for Sustainability is a leading global initiative that supports the green transition of SMEs and financial institutions. Recognising the crucial role of SMEs in achieving climate targets, the platform focuses on improving access to sustainable finance and providing both financial and non-financial support.

This initiative aligns well with our report's findings on the importance of collaborative approaches to support SMEs in their sustainability efforts.

Key aspects of the platform include:

1 Knowledge sharing

Highlighting effective practices implemented by financial institutions and governments to promote sustainable finance for SMEs

2 Data and analytical work

Conducting research to better understand the challenges and opportunities in SME sustainable finance

3 Policy dialogue

Facilitating discussions among diverse stakeholders to develop supportive policies for sustainable SME finance

4 Pilot development

Supporting the creation and scaling of relevant models across countries and institutions

The platform's recent survey on "Financing SMEs for sustainability" offers insights into financial institution strategies and approaches. By bringing together public and private financial institutions, policymakers, sustainability actors, and SME representatives, the OECD Platform contributes to bridging knowledge gaps and promoting effective policies for sustainable SME finance.

Section 4.
The power of the virtuous circle

When all three components work together, the results are powerful. SMEs with access to sustainable finance are **2.5 times more likely to implement significant sustainability initiatives.** Those with comprehensive sustainability reports are **1.5 times more likely to secure financing.** And SMEs taking concrete climate actions report a wide range of benefits:

- **60%** report improved brand reputation
- **55%** note cost savings
- **45%** experience increased customer loyalty
- **40%** see enhanced employee engagement
- **35%** attract new customers

However, with only 1.2% of SMEs currently benefiting fully from this virtuous circle, there's an urgent need for action. By addressing the challenges in each area - simplifying reporting, enhancing access to finance, and enabling action - we can unlock the full potential of SMEs in the fight against climate change.

The virtuous circle, when fully realised, not only accelerates SME climate action but also boosts their financial health and competitiveness. It's a win-win scenario that we must strive to make a reality for all SMEs, not a small minority.

Section 5.
Recommendations for unlocking the green finance opportunity for SMEs

To fully realise the potential of the virtuous circle and accelerate SME climate action, we offer the following recommendations, addressing each stage of the virtuous circle:

5.1. Sustainability reporting: Strengthening the foundation

Establish a supportive ecosystem for SME sustainability reporting

- Raise awareness amongst SMEs about the importance and benefits of sustainability reporting in accessing markets, funding, cost efficiencies, and addressing global decarbonisation requirements.
- Implement targeted financial incentives (e.g., tax credits, cash back, grants) to encourage SMEs to invest in sustainability reporting, offsetting initial costs, as well as associated investments such as training.
- Develop shared tools, datasets, and accessible data models to enable SMEs to report using actual performance data, whilst allowing transitional use of relying on estimates or industry averages.

Develop simple, user-friendly, and accessible reporting standards

- Ensure sustainability reporting standards meet lenders' and larger corporates' needs whilst remaining proportionate to SMEs' size and resources.
- Establish simple and consistent sustainability terminology across reporting frameworks to reduce complexity.
- Provide clear guidance on materiality assessments to help SMEs prioritise relevant reporting topics and create supporting resources such as templates, calculation examples, and best practice guidance.

Leverage technology for streamlined reporting

- Promote affordable, user-friendly digital technologies to automate data collection and reporting processes.
- Build data infrastructure that automates the transfer of data to support SMEs with environmental reporting and assists with application forms and data requests from lenders and larger corporates.
- Integrate reporting software with financial institutions so that business reporting data automatically identifies potential carbon reduction actions and relevant financing options.

Build capacity and foster collaboration

- Develop sector-specific guidance and tools for all industries to accelerate carbon emissions reduction.
- Create knowledge-sharing platforms for peer learning amongst SMEs.
- Establish a network of sustainability advisors trained to assist SMEs with reporting.

5.2. Sustainable finance: Enhancing the enabler

Improve data standardisation and accessibility

- Standardise and streamline sustainability data requests across financial institutions and larger corporates to reduce the reporting burden on SMEs.
- Align global efforts to drive international convergence and interoperability across reporting standards to minimise duplication and divergence.

Tailor financial products for SMEs

- Expand the range of green and sustainable financing instruments for SMEs, including sustainability-linked and transition finance products.
- Adapt the broader transition plans of financial institutions and larger corporates to specifically consider and support SMEs in their supply chains.

5.3. Climate action: Achieving the goal

Boost non-financial support for SMEs to take action

- Provide non-financial support such as workshops, consulting services, and training to help SMEs implement climate-related goals.
- Create sector-specific action plans and toolkits for industries with the highest potential for emissions reduction, supporting both emissions reduction and comprehensive energy transition planning.

Measure and incentivise the progress of SMEs

- Establish mechanisms to track SME progress throughout the virtuous circle, measuring increases in reporting quality, access to finance, and climate actions taken.
- Use this data to continually refine support programmes and policies.

Integrate SME climate action into broader policies

- Adopt an SME-first approach to national and international economic and climate policies and ensure there is support available for them to meet requirements and benefit from green growth opportunities.
- Encourage governments to consult with the private sector, including SMEs, in developing ambitious, actionable and 1.5°C aligned Nationally Determined Contributions (NDCs) under the Paris Agreement, to ensure that these provide clear, transparent and readily understood policy and investments plans and support concrete action for all businesses, including SMEs.

Section 6.
Conclusion: Harnessing the green growth opportunity

SMEs, with their collective scale, have the potential to transform global climate action. The will for change is present, and substantial green finance - $789 billion - is available (and growing).

By creating the right conditions for action, we can unlock the power of the virtuous circle of sustainability reporting, sustainable finance, and climate action. This will empower SMEs to dramatically boost their climate action while simultaneously improving their financial health and competitiveness.

We call on policymakers, financial institutions, technology providers, and SME support organisations to collaborate in ensuring all SMEs can benefit from this virtuous circle. By doing so, we can transform the challenge of climate change into a springboard for innovation, growth, and a sustainable future. The pieces are in place - now is the time to seize this opportunity and position SMEs at the forefront of a greener, more prosperous economy.

SECTION 7.
Appendix

7.1. Methodology

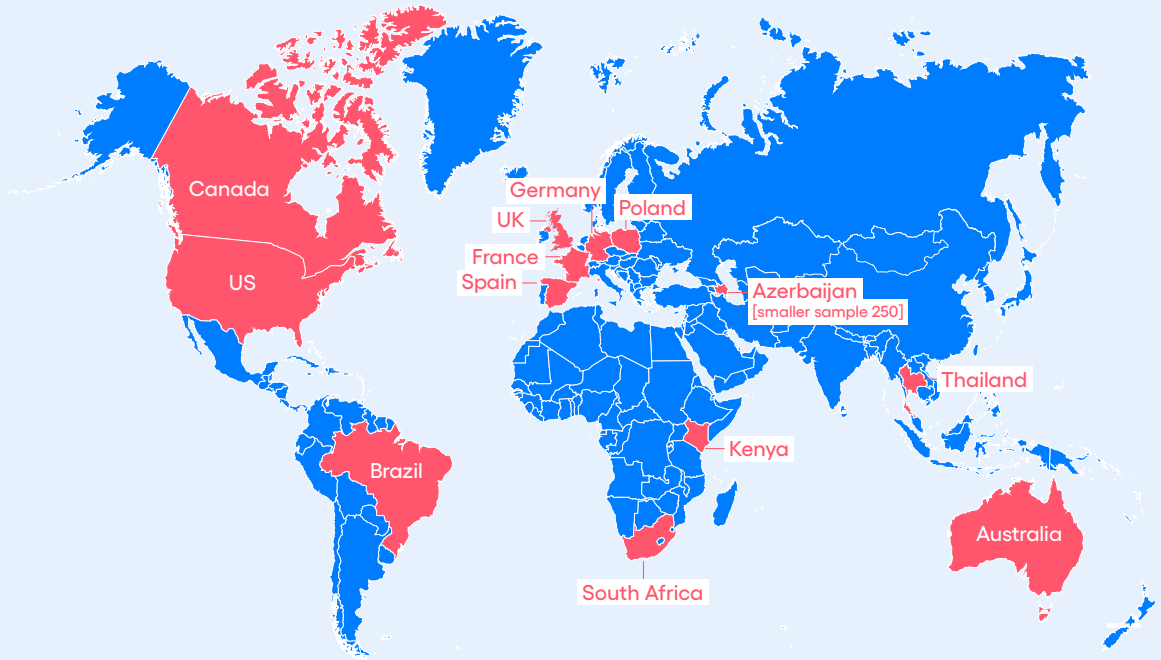
This comprehensive study captures the global landscape of SME sustainability efforts and challenges:

Definition of an SME: Businesses employing fewer than 250 people

Sample size: 6,250 tracking study of SMEs, defined as those employing up to 500 people

Tracking studies: While we did not survey all of the same SMEs as last year we conducted a tracking study. To do so, we maintained a consistent sampling method, ensuring a representative sample of SMEs across various sectors, sizes, and regions. By keeping the selection criteria and methodology the same, we can accurately track trends. Our large, representative sample ensures that observed changes reflect real shifts, not just differences among respondents. Additionally, we asked standardised questions over time to allow for precise comparison across different periods. The only comparisons given are those which are statistically significant and where the same question was asked. Tracked questions over time allow for precise comparison across different periods. The only comparisons given are those which are statistically significant and where the same question was asked.

Markets covered: 13 countries across diverse regions



Our survey captured all major business demographics, from size to sector, as well as detailed geographic information. This diverse sample allowed us to draw insights that are representative of the global SME landscape.

The study employed a mix of quantitative and qualitative methods, including surveys and in-depth interviews, to gather comprehensive data on SMEs' sustainability strategies, reporting practices, access to finance, and climate actions. This robust methodology ensures our findings provide a reliable basis for policy recommendations and strategic decision-making.

References

1. Climate action refers to efforts taken to combat climate change and its impacts. These efforts involve reducing greenhouse gas emissions (climate mitigation) and/or taking action to prepare for and adjust to both the current effects of climate change and the predicted impacts in the future (climate adaptation). Source: EUR-Lex, Climate action - EUR-Lex (europa.eu)

2. IITC (2021), SME Competitiveness Outlook 2021: Empowering the Green Recovery

3. Global Sustainable Investment Alliance. (2022).

4. *Financing SMEs for Sustainability* – Financial institution strategies and approaches, 2023, OECD

5. Sage, Path to Growth, 2023.

6. Path for Growth: Making sustainability reporting work for SMEs

7. Path for Growth: Making sustainability reporting work for SMEs

8. PCAF Explained: Guiding financial institutions on emissions reporting (pathzero.com)

9. COP27, Sage Report, Oxford Economics.

10. IITC (2021), SME Competitiveness Outlook 2021: Empowering the Green Recovery

11. Example sustainability reporting frameworks and requirements include:
- International Sustainability Standards Board (ISSB): Provides global baseline standards for sustainability-related financial disclosures
- Task Force on Climate-Related Financial Disclosures (TCFD): Framework for climate-related financial risk disclosures
- Global Reporting Initiative (GRI): Widely used standards for sustainability reporting focused on organisational impacts
- Sustainability Accounting Standards Board (SASB): Industry-specific standards for reporting on financial material sustainability topics
- CDP (formerly Carbon Disclosure Project): Global environmental disclosure system focusing on climate change, water security, and deforestation
- Corporate Sustainability Reporting Directive (CSRD): EU legislation requiring large companies to report on environmental and social impacts according to European Sustainability Standards

12. OECD, Financing SMEs for Sustainability – Financial institution strategies and approaches, 2023

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